



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

State of Montana

*For the Fiscal Year Ended
June 30, 2017*

FEBRUARY 2018

LEGISLATIVE AUDIT
DIVISION

17-01A

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018.

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<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

February 2018

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our Independent Auditor's Report on the basic financial statements and the Schedule of Expenditure of Federal Awards of the state of Montana for the fiscal year ended June 30, 2017. The basic financial statements were prepared by the State Financial Services Division of the Department of Administration. The Schedule of Expenditures of Federal Awards was prepared by the Governor's Office of Budget and Program Planning.

We issued an unmodified opinion on each of the eleven opinion units, as described in the Independent Auditor's Report on page A-5, included in the basic financial statements. This means the reader can rely on the information presented in the report. In addition, we issued an unmodified in-relation-to opinion on the Schedule of Expenditures of Federal Awards included in this report. There are no audit recommendations.

The state continues to experience funding issues related to its retirement systems. The Highway Patrol Officers' and Game Wardens' and Peace Officers' retirement systems were not actuarially sound, which is considered material noncompliance with the Montana Constitution as it requires plans to be funded on an actuarially sound basis, and state law, which requires the plans to amortize within 30 years. This noncompliance is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and is further addressed in the Independent Auditor's Report.

The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* includes a material weakness related to financial

statement preparation at the Board of Investments associated with the Economic Development Bonds major fund, the portion of the Business-Type Activities attributed to this activity, and related note disclosures. The report also includes a significant deficiency related to the Board of Investments' control deficiency with the portion of the Remaining Fund Information attributed to Investment Trust Fund activity.

Department of Administration and Governor's Office officials reviewed the contents of this report. The Department of Administration's response is on B-1. The response from the Governor's Office is on B-2.

We thank the Department of Administration's director, the State Financial Services Division staff, and the Governor's Office staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Objectives and Summary of Results.....	1
Report Organization	2
INDEPENDENT AUDITOR’S REPORT, BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1
Independent Auditor’s Report	A-5
Management’s Discussion and Analysis	A-9
Statement of Net Position.....	A-20
Statement of Activities.....	A-22
Balance Sheet Governmental Funds	A-24
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	A-26
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds.....	A-28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A-30
Statement of Fund Net Position-Proprietary Funds	A-32
Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds	A-34
Statement of Cash Flows-Proprietary Funds	A-36
Statement of Fiduciary Net Position-Fiduciary Funds.....	A-38
Statement of Changes in Fiduciary Net Position-Fiduciary Funds.....	A-39
Notes to the Financial Statements.....	A-40
Budgetary Comparison Schedule-General and Major Special Revenue Funds.....	A-172
Notes to the Required Supplementary Information Budgetary Reporting.....	A-174
Pension Plan Information.....	A-175
Other Postemployment Benefits Plan Information (OPEB).....	A-190
Schedule of Expenditures of Federal Awards.....	A-194
Notes to the Schedule of Expenditures of Federal Awards	A-233
STATE RESPONSES	
Department of Administration	B-1
Office of Budget and Program Planning	B-2

ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

State of Montana Steve Bullock, Governor

Department of Administration John Lewis, Director (as of January 1, 2017)
Sheila Hogan, Director (through December 31, 2016)

State Financial Services Division

Cheryl Grey, CPA, Administrator

State Accounting Bureau

Cody Pearce, CPA, State Accountant and Bureau Chief

Accounting Principles & Financial Reporting Section

Kristin Reynolds, CPA, Manager

Drew Bisenius, CPA, Accountant

Anthony Cacace, Accountant

Courtney Cozzie, Accountant

Bill Hall, Accountant

Ingrid Mallo, CPA, Accountant

Governor's Office **Office of Budget and Program Planning**

Dan Villa, Director

Sonia Powell, CPA, Single Audit Coordinator

For additional information concerning the basic financial statements, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

State of Montana

For the Fiscal Year Ended June 30, 2017

FEBRUARY 2018

17-01A

REPORT SUMMARY

From fiscal year 2016 to fiscal year 2017, the fund equity balance in the General Fund decreased from \$271.3 million to \$66.9 million. Of the \$66.9 million, Montana had approximately \$47.9 million of unassigned fund balance, which is the amount not already intended for a specific use. This represents a decrease of \$78.5 million in the unassigned amount from June 30, 2016. Overall, total General Fund tax revenues slightly increased but Individual income taxes and Other taxes decreased. Increased General Fund expenditures primarily occurred in the areas of Health and human services and Education. This, and other information relevant to understanding the state's financial health, are contained in this audit report.

Context

This set of financial statements provides legislators and taxpayers with a summary of the state's overall financial position as of June 30, 2017, as well as financial information on all operations and activities of state government for the fiscal year then ended. The General Fund is used to account for all governmental financial resources except those required to be accounted for in another fund. The General Fund and Federal Special Revenue Fund account for approximately 82 percent of the state's governmental revenue and expenditure activity. The Health & Human Services and Education categories account for approximately 65 percent of the state's governmental expenditures.

The Department of Administration (department) prepares the basic financial statements by consolidating every state agency's financial data into an annual financial report. The financial data is derived from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present the financial activity in accordance with generally accepted accounting principles

and include some of the following: correcting errors identified in agency audits, preparing the notes to the financial statements, and eliminating internal balances that roll together for presentation purposes.

The financial section of this report consists of the basic financial statements, along with note disclosures that contain a good deal of information to help the reader understand the financial statements. There is a subsequent event disclosure which provides information related to the special session and other events that occurred after the date of the financial statements.

The Governor's Office of Budget and Program Planning prepares the Schedule of Expenditures of Federal Awards (SEFA). The SEFA reports total federal grant expenditures of approximately \$3.9 billion. Federal assistance transferred from a state agency or university to a nonstate agency, such as a city, county, tribal government, or nonprofit organization, is identified in the Amount to Sub-recipients column shown on the SEFA.

(continued on back)

Results

Our audit work included obtaining and evaluating the results of completed agency audits. We also analyzed financial data, including testing adjustments and corrections to the accounting records, and reviewed the financial statements and notes to determine whether they are supported by the accounting records. We determined whether the SEFA was reasonable in relation to the amounts presented in the basic financial statements. There were no prior audit recommendations, and this report contains no current audit recommendations.

The state continues to experience funding issues related to its retirement systems. In fiscal year 2017, the Highway Patrol Officers' and Game Wardens' and Peace Officers' retirement systems were not actuarially sound. The information was disclosed in the Public Employee's Retirement Board audit report (16-08B) and is considered material noncompliance with the Montana Constitution, which requires plans to be funded on an actuarially sound basis, and state law, which requires the plans to amortize within 30 years. This noncompliance is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and is further addressed in the Independent Auditor's Report.

This report also includes a material weakness related to financial statement preparation at the Board of Investments' associated with the Economic Development Bonds major fund, the portion of the Business-Type Activities attributed to this activity, and related note disclosures. It also includes a significant deficiency related to the Board of Investments' control deficiency with the portion of the Remaining Fund Information attributed to Investment Trust Fund Activity.

For a complete copy of the report (17-01A) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at
<http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Objectives and Summary of Results

We conducted a financial audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2017. The objectives of the audit were to:

1. Express opinions on the fair presentation of the state's basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and an opinion on the state's Schedule of Expenditures of Federal Awards in relation to the state's basic financial statements.
2. Obtain an understanding of the internal control structures to the extent necessary to support the audit of its financial statements and, where necessary, make recommendations for improvement in the management and internal controls.
3. Determine compliance with selected, applicable laws and regulations.

Per §17-2-110, MCA, the Department of Administration (department) must consolidate every state agency's financial data into an annual financial report. The department personnel prepared the financial statements based on accounting information from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present the financial activity in accordance with generally accepted accounting principles and include some of the following: correcting errors identified in our agency audits, preparing the notes to the financial statements, and eliminating internal balances that roll together for presentation purposes.

In order to address the objectives above, we focused our audit efforts on analyzing financial data, including testing adjustments and corrections to the accounting records, and reviewing the financial statements and notes to determine whether they were adequately supported by the accounting records. We also obtained and evaluated the results of completed agency audits. We determined whether the Schedule of Expenditures of Federal Awards (SEFA) was reasonable in relation to the amounts presented in the basic financial statements.

We issued an unmodified opinion on each of the eleven opinion units, as described in the Independent Auditor's Report on page A-5, included in the basic financial statements. This means the reader can rely on the information presented in the report. In addition, we issued an unmodified in-relation-to opinion on the Schedule of Expenditures of Federal Awards included in this report. The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* includes a material weakness related to financial statement preparation at

the Board of Investments associated with the Economic Development Bonds major fund, the portion of the Business-Type Activities attributed to this activity, and related note disclosures. The report also includes a significant deficiency related to the Board of Investments' control deficiency with the portion of the Remaining Fund Information attributed to Investment Trust Fund activity. Noncompliance with state law and the Montana Constitution are included in our report on internal controls over financial reporting and on compliance and other matters. There were no prior audit recommendations, and this report contains no current audit recommendations.

Report Organization

The Independent Auditor's Report is on page A-5, followed by the Management's Discussion and Analysis, the basic financial statements, notes to the financial statements, the Budgetary Comparison Schedule, Pension Plan Information, Other Postemployment Benefits Plan Information, and accompanying notes. The Schedule of Expenditures of Federal Awards begins on page A-194.

Our report on the state of Montana's internal control over financial reporting and on compliance and other matters, which is required by *Government Auditing Standards*, is on page A-1.

**Independent Auditor's Report,
Basic Financial Statements, Required
Supplementary Information and Schedule
of Expenditures of Federal Awards**

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements, and have issued our report thereon dated January 23, 2018. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the state of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Montana's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below for the financial reporting of the Board of Investment's Enterprise Fund Economic Development Bond activity to be a material weakness.

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the Economic Development Bonds major fund, the portion of the Business-Type Activities attributed to this activity, and related note disclosures.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the portion of the Remaining Fund Information attributed to Investment Trust Fund Activity.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans and an Other Post Employment Benefit (OPEB). The Montana Constitution and state law require all retirement systems to be actuarially sound. The Game Wardens' and Peace Officers' retirement system and Highway Patrol Officers' retirement system were not actuarially sound at June 30, 2017 because they amortize in 70 years and 37 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law.

State of Montana's Response to Findings

The state of Montana's response to the findings identified in this report are described in the separately issued Public Employees' Retirement Administration audit report (16-08B), Board of Investments audit report (16-04B) and on page B-1 of this report. The state of Montana's response was not subjected

to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the state of Montana's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 23, 2018

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2017, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

- ◆ Statement of Net Position
- ◆ Statement of Activities
- ◆ Balance Sheet—Governmental Funds
- ◆ Reconciliation of the Balance Sheet—Governmental Funds to the Statement of Net Position
- ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
- ◆ Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to the Statement of Activities
- ◆ Statement of Fund Net Position—Proprietary Funds
- ◆ Statement of Revenues, Expenses, and Changes in Fund Net Position—Proprietary Funds
- ◆ Statement of Cash Flows—Proprietary Funds
- ◆ Statement of Fiduciary Net Position—Fiduciary Funds
- ◆ Statement of Changes in Fiduciary Net Position—Fiduciary Funds

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University (MSU) component units and the University of Montana (UM) component units, which represents 17.05 percent, 32.80 percent, and

15.91 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the state of Montana’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana’s internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Unmodified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	Unmodified

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 19 to the financial statements, at June 30, 2017, the Game Wardens' and Peace Officers' retirement system and Highway Patrol Officers' retirement system were not actuarially sound at June 30, 2017, as required by the Montana Constitution because they amortize in 70 years and 37 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 3 to the financial statements, in fiscal year 2017, the Board of Investments transitioned its internal pool structure for pension investments from five individual investment pools to a single investment pool. Our opinions are not modified with respect to this matter.

As discussed in Note 18A footnote 1, Montana State Fund (MSF) was issued a Certificate of Authority, became an authorized insurer regulated by the Montana Commission of Securities and Insurance, and is now subject to the provisions of Title 33, Montana Insurance Code. Effective January 1, 2016, MSF operates on a calendar year basis. The basic financial statements for the fiscal year ended June 30, 2016, included MSF financial information for a 6-month reporting period. This report, for the year ended June 30, 2017, includes a 12-month financial reporting period for MSF. Our opinion for the Aggregate Discretely Presented Component Units is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Post Employment Benefit Plan Information, and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2017 by \$8.2 billion compared with \$8.1 billion at the end of fiscal year 2016, representing a 1.8% increase in net position. Component units reported net position of \$1.9 billion at the end of fiscal year 2017 compared to \$1.8 billion at the end of fiscal year 2016, representing a 7.2% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2017, the State's governmental funds reported combined ending fund balances of \$3.9 billion compared with \$4.1 billion at fiscal year 2016. Of the 2017 balance, \$1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, \$2.3 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: \$1.0 billion restricted, \$1.2 billion committed, \$13.5 million assigned and \$47.9 million unassigned. This represents a \$179.5 million (4.4%) decrease in total fund balance. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2017 in the amount of \$395.0 million compared with fiscal year 2016 net position of \$372.0 million. Of the 2017 business-type activity net position, \$19.0 million was reported as net investment in capital assets. Net position of \$376.0 million was in spendable form with \$8.3 million unrestricted and \$367.7 million restricted to expenditure for a specific purpose. This represents a \$19.8 million (5.6%) increase in spendable net position from the fiscal year 2016 balance of \$356.2 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by \$37.2 million, from \$230.6 million in fiscal year 2016 to \$193.4 million, a 16.2% decrease in fiscal year 2017.

Further detail relating to the State's long-term debt is provided in *notes to the financial statement's* Note 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. The report also contains additional required supplementary information, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements*. These financial statements also include

the *notes to the financial statements*, which provide further detail and information related to the balances of the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. In other words, they follow methods that are similar to those used by most businesses, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements: The *Statement of Net Position* and the *Statement of Activities*, as defined below.

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information related to the government's net position changes during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including federal grants. Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bonds Program, which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – Operations for which the State has financial accountability, but have certain independent qualities as well. In order to be considered component units, these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State's component units consist of one financing authority, one housing board, one nonprofit independent public corporation and two universities.

Fund Financial Statements - Reporting the State's Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted individually. The three categories of funds are as follows:

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the

governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas, internal service funds report activities that provide supplies and services to the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary fund statements use the full accrual basis of accounting.

Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential for a full understanding of the *government-wide* and the *fund financial statements*. The *notes to the financial statements* can be found immediately following the fiduciary fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and major special revenue funds, as presented in the governmental *fund financial statements*. Required supplementary information also includes pension and other post employment benefits plan information, as well as additional risk management trend data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the \$149.2 million increase (1.8%) in net position. This improvement resulted from a continued economic recovery within the State.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled \$8.2 billion at the end of fiscal year 2017. Net position of the both governmental and business-type activities increased by \$126.1 million (1.6%) and \$23.0 million (6.2%), respectively. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position.

At the end of the current fiscal year, the State reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The negative unrestricted net position is primarily due to net pension liability. GASB Statements No. 68 and 71 were implemented in fiscal year 2015 and are contributing factors to the negative net position. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$5,172,386	\$5,143,823	\$525,340	\$549,267	\$5,697,726	\$5,693,090
Capital assets	5,753,621	5,991,964	16,363	19,400	5,769,984	6,011,364
Total assets	10,926,007	11,135,787	541,703	568,667	11,467,710	11,704,454
Deferred outflows of resources	201,784	342,370	1,481	3,120	203,265	345,490
Long-term liabilities						
Due in more than one year	2,318,021	2,513,940	24,508	27,252	2,342,529	2,541,192
Other liabilities	937,756	1,055,609	145,603	149,298	1,083,359	1,204,907
Total liabilities	3,255,777	3,569,549	170,111	176,550	3,425,888	3,746,099
Deferred inflows of resources	144,983	55,436	1,100	229	146,083	55,665
Net investment in capital assets	5,616,889	5,873,003	15,760	18,986	5,632,649	5,891,989
Restricted	2,890,669	2,951,964	347,818	367,734	3,238,487	3,319,698
Unrestricted	(780,527)	(971,795)	8,395	8,288	(772,132)	(963,507)
Total net position	\$7,727,031	\$7,853,172	\$371,973	\$395,008	\$8,099,004	\$8,248,180

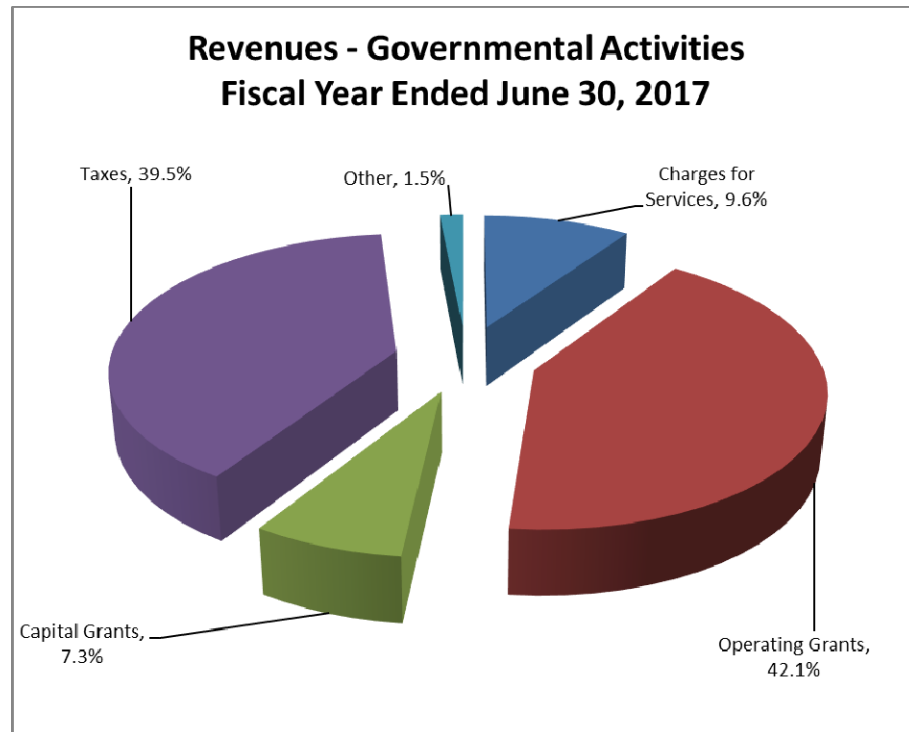
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

Changes in Net Position
For Fiscal Year Ended June 30,
(expressed in thousands)

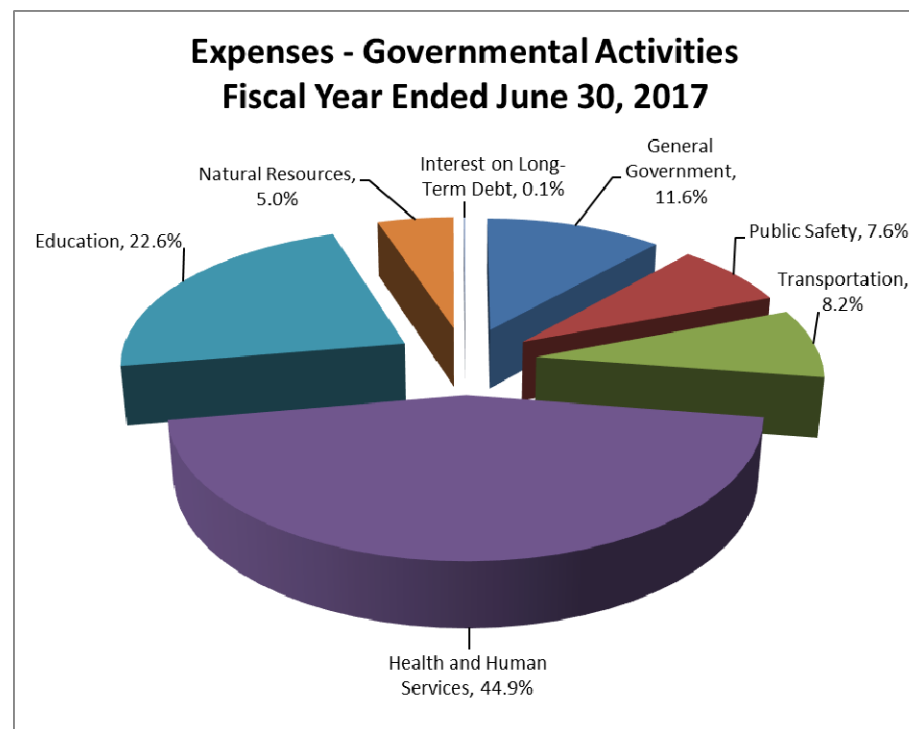
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program revenues						
Charges for services	\$ 577,679	\$ 571,927	\$397,793	\$389,279	\$ 975,472	\$ 961,206
Operating grants	2,093,817	2,506,711	56,565	60,219	2,150,382	2,566,930
Capital grants	456,588	434,860	857	604	457,445	435,464
General revenues						
Taxes	2,318,433	2,352,133	27,078	27,958	2,345,511	2,380,091
Other	146,716	93,077	2,701	3,708	149,417	96,785
Total revenues	5,593,233	5,958,708	484,994	481,768	6,078,227	6,440,476
Expenses:						
General government	696,984	688,798			696,984	688,798
Public safety	420,532	454,194			420,532	454,194
Transportation	464,092	484,214			464,092	484,214
Health and human service	2,174,506	2,668,273			2,174,506	2,668,273
Education	1,324,299	1,344,121			1,324,299	1,344,121
Natural resources	295,332	295,853			295,332	295,853
Interest on long-term debt	9,373	7,484			9,373	7,484
Unemployment Insurance			119,088	117,788	119,088	117,788
Liquor Stores			81,556	83,313	81,556	83,313
State Lottery			47,202	43,377	47,202	43,377
Economic Dev Bonds			1,198	1,851	1,198	1,851
Hail Insurance			817	1,696	817	1,696
Gen Govt Services			71,343	72,489	71,343	72,489
Prison Funds			9,099	8,140	9,099	8,140
MUS Group Insurance			87,535	81,051	87,535	81,051
MUS Workers Comp			2,430	2,786	2,430	2,786
Total expenses	5,385,118	5,942,937	420,268	412,491	5,805,386	6,355,428
Increase (decrease) in net position before transfers	208,115	15,771	64,726	69,277	272,841	85,048
Transfers	49,813	46,141	(49,813)	(46,141)	-	-
Change in net position	257,928	61,912	14,913	23,136	272,841	85,048
Net position, beg of year (as adjusted)	7,469,103	7,791,260	357,060	371,872	7,826,163	8,163,132
Net position, end of year	\$7,727,031	\$7,853,172	\$371,973	\$395,008	\$8,099,004	\$8,248,180

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:

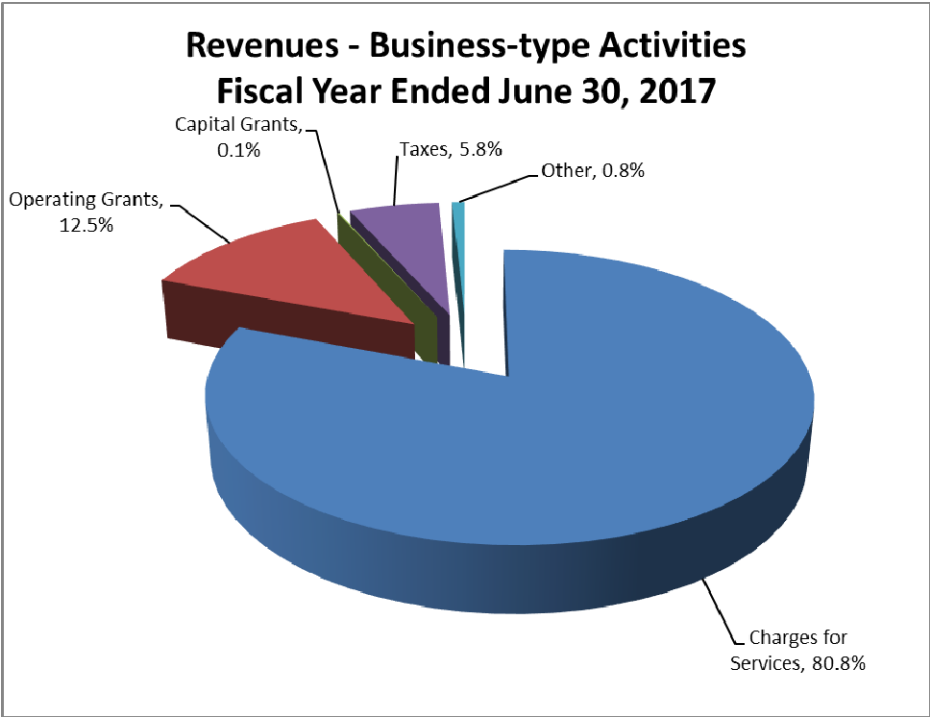


The following chart depicts expenses of the governmental activities for the fiscal year:

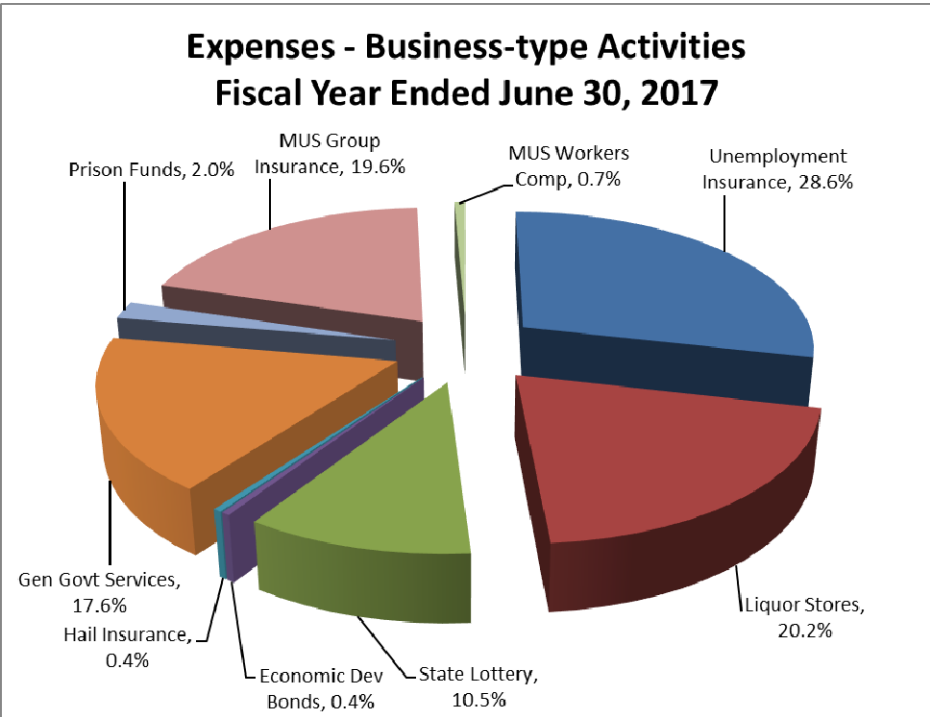


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.9 billion. Of this total, \$2.3 billion (58.7%) constitutes spendable fund balance and \$1.6 billion (41.3%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. For fiscal year 2017, the total fund balance of the General Fund was reported at approximately \$67.0 million. Of this balance \$7.7 million is non-spendable. The remaining \$59.3 million is spendable with \$11.4 million assigned and \$47.9 million unassigned. This represents 2.6% of the \$2.3 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, \$11.4 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance decreased by \$204.3 million when compared to the previously reported fund balance of \$271.3 million. Changes in both expenditures and revenues are discussed in detail below. The 2017 Legislative Session projected \$112.0 million General Fund unassigned fund balance for fiscal year 2017, without regard to a fund balance spend down in fiscal year 2018.

General Fund Revenues – Total General Fund revenues were \$2.1 billion for fiscal year 2017 (lower than legislative estimation), a 1.3% increase from the \$2.0 billion reported in 2016 (which were also lower than legislative estimation). Fiscal year 2017 tax revenue increased by 1.0% in total over 2016, with natural resource and corporate income tax collections up 8.9% and 11.5%, respectively. Individual income tax collections decreased slightly by 0.8%. Other noted increases in revenues included rentals / leases / royalties, contributions / premiums, and grants / contracts / donations.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2017 increased by \$88.9 million (4.0%). This increase in expenditures occurred in the general government, health and human services, education and natural resources functions as follows:

- General government expenditures increased by \$10.3 million (3.0%)
- Health and human services expenditures increased by \$53.0 million (10.9%)
- Education expenditures increased by \$21.8 million (2.1%)
- Natural resources expenditures increased by \$2.7 million (7.8%)

Transfers out decreased by \$45.9 million (50.3%) to \$45.3 million in 2017, mostly attributable to the decrease in fire suppression transfers. Another noted decrease in expenditures were capital outlay.

The General Fund's actual revenues and expenditures in comparison to budgeted revenues and expenditures is provided in more depth on the Budgetary Comparison Schedule, within the Required Supplementary Information section of this report. The same level of detail used to report the actual revenues and expenditures is not readily available for all budgetary revenues and expenditures, which may cause some variances.

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2017, general fund appropriations that reverted to 2018 were \$25.2 million.

The Department of Administration had unspent appropriations of \$7.9 million, the vast majority of which was attributable to supplemental transfers, banking charges, budget corrections and other operational costs.

The Department of Corrections had unspent appropriations of \$4.1 million related to Medicaid savings and other operational costs.

The Office of Public Instruction had unspent appropriations of \$3.3 million related K-12 base aid and other operational costs.

The Department of Legislative Services, the Judicial Branch, Commissioner of Higher Ed, the Department of Revenue, and the Department of Public Health and Human Services had unspent appropriations of \$1.2 million, \$1.2 million, \$1.1 million, \$1.1 million, and \$1.1 million respectively, related to operational costs.

The remaining unspent appropriation of \$4.2 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund

The fund balance of the State Special Revenue Fund increased by \$27.4 million to \$1.6 billion. Revenues increased by \$33.4 million (3.8%) and expenditures decreased \$5.1 million (0.5%), for fiscal year 2017. The largest increases in revenues are attributable to an increase in natural resources tax collections and charges for services, whereas there was a notable decrease in investment earnings and sale of miscellaneous items. The largest decreases in expenditures are attributable to reductions in education and capital outlay related expenditures. Other financing sources related to refunding bonds were not present in the current year and transfers in and out both decreased.

Federal Special Revenue Fund

The fund balance of the Federal Special Revenue Fund increased by \$3.1 million (34.8%) to \$12.1 million. Revenues and expenditures increased by \$422.1 million (17.7%) and \$414.1 million (17.5%) respectively, for the fiscal year 2017. Revenue increases are attributable to increases in federal revenue, expenditure increases are attributable to increases in health and human services, public safety, and transportation related expenditures however offset some by a decrease in capital outlay.

Coal Severance Tax Permanent Fund

The fund balance of the Coal Severance Tax Permanent Fund decreased by \$6.4 million (0.6%) to \$1.1 billion. Revenue decreased by \$53.2 million (59.1%) to \$36.8 million, primarily due to a decrease of \$47.7 million in investment earnings. The transfers out increased by \$18.9 million (78.4%).

Land Grant Permanent Fund

The fund balance of the Land Grant Permanent Fund increased by \$15.0 million (2.1%) to \$725.5 million. Within this fund, capital asset sale proceeds increased by \$12.6 million, while rent/lease/royalties and investment earnings decreased by \$11.1 million and \$38.6 million, respectively.

Unemployment Insurance Enterprise Fund

Net position restricted for unemployment compensation increased by \$454.0 thousand (0.2%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2017 accompanied by an increase in the taxable wage base from \$30.5 thousand to \$31.4 thousand in 2017.

Economic Development Bonds Enterprise Fund

Net position decreased by 1.8% to \$5.1 million in fiscal year 2017. Financing income revenue increased \$582.0 thousand, while expenses from interest expense increased \$621.0 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2017, amounted to \$8.2 billion, with related accumulated depreciation of \$2.2 billion, leaving a net book value of \$6.0 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, intangible assets, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was \$241.4 million or 4.2% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the *notes to the financial statements*.

Debt Administration

Montana continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA), and Fitch Ratings (AA+), which remain unchanged from 2016.

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from \$115.5 million at June 30, 2016, to \$98.6 million at June 30, 2017. There is cash available, of \$6.7 million at the end of fiscal year 2017, in debt service funds to service general obligation debt.

The below table contains the ratio of general obligation debt and total State debt to personal income and to the amount of debt per capita:

	Amount (in thousands)	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$98,625	0.22%	\$95
Total State debt	\$182,179	0.40% (3)	\$181 (3)

(1) Based on personal income for calendar year 2016.

(2) Based on estimated 2016 Montana population.

(3) Based on total of general obligations bonds, special revenue bonds, notes payable and lease/installment purchase payable for the percentage and state debt per capita

More detailed information regarding the State's long-term obligations is presented in Note 11 of the notes to the financial statements and in the statistical tables.

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2016 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 1.6% in 2016, which was faster than the rate of inflation. Montana's unemployment rate has continued to remain lower than the national rate since the 2001 recession. Montana's annual unemployment rate of 4.1% in 2016 was the 16th lowest in the nation. Montana added roughly 6,481 jobs in 2016, for a growth rate of 1.3%. Montana had approximately 475,200 people employed in nonfarm non-adjusted jobs in August 2017, as compared to 467,600 in August 2016. Montana's personal income growth in 2016 was 2.3%. Montana's personal income growth over the past ten years is the 11th fastest among all states. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The 2017 Legislature completed work and adjourned in late April 2017. Upon adjournment, it was anticipated that 2019 biennium General Fund revenue collections would be approximately \$4.9 billion while General Fund expenditures would be approximately \$4.8 billion. At the end of fiscal year 2019, the estimated general fund balance will be approximately \$200.0 million. During the 2017 Legislative Session Senate Bill (SB) 261 was passed. SB 261 contained various transfer and/or reductions in spending requirements based on June 30, 2017, unaudited General Fund revenue. Additionally, subsequent to fiscal year-end 2017, a special session of the Legislature was called to order to address an anticipated General Fund deficit for the budget period ended June 30, 2019. More information related to the fiscal year 2018 financial impacts of SB 261 and the special session is provided in Note 17.

The following are the major financial highlights of the 2019 biennium budget:

1. The Governor proposed and the 2017 Legislature approved a \$6.0 million one-time-only appropriation for a preschool pilot program dedicated for early education efforts for pre-k children.
2. The 2017 Legislature adopted a series of bills aimed at re-balancing the correctional and judicial systems. Specifics of the bills include increased funding to community programs to divert inmates from county jail

holds, revising criminal justice laws, and investing in additional district court judges in the State of Montana.

3. The 2017 Legislature passed House Bill (HB) 639 which levies a community benefit assessment on certain hospitals in the State of Montana. The measure is anticipated to generate \$13.1 million in General Fund revenue by fiscal year 2019.
4. The 2017 Legislature pass Senate Bill (SB) 261 which provided a short-term stabilization plan in which automatic reductions would be made to prescribed agency budgets, and transfers from the wildfire suppression fund to the General Fund would happen should revenues come in short of expectations in fiscal year 2017. SB 261 also provided for the creation of the Budget Stabilization Reserve to provide for a formal “Rainy Day” fund in the future.
5. The Montana University System received a one-time-only appropriation of \$2.0 million to serve as funds to provide for buy-outs of long-time university system employees, particularly at the University of Montana.
6. The 2017 Legislature passed SB 260 which creates the school facilities fund in the Coal Severance Tax Fund and allocates 75% of coal severance taxes in excess of the amount needed in the coal severance bond fund to school facilities.
7. The 2017 Legislature passed HB 648 which restructured payments to the Public Employees’ Retirement System and ultimately delinked these payments from coal-related revenues. This change will provide for a more stable and predictable financing structure into the future.
8. The Governor proposed and the 2017 Legislature funded a restructured appropriation for a sage grouse conservation fund, which will extend funding for sage grouse conservation through fiscal year 2021. Initial funding for this item was a major consideration in preventing listing on the endangered species list.
9. The 2019 biennium present law budget generally funds existing core services (i.e. health and human services, corrections, and education) at estimated caseload, population, and enrollment levels.

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2017, the Game Warden & Peace Officers’ Retirement System (GWORS), and the Highway Patrol Officers’ Retirement System (HPORS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2017.

The actuarial condition of these retirement plans is disclosed in greater detail in Note 6 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana’s finances for all of Montana’s citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION

JUNE 30, 2017

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,147,781	\$ 397,350	\$ 1,545,131	\$ 417,235
Receivables (net) (Note 4)	397,981	44,723	442,704	201,240
Due from primary government	-	-	-	1,682
Due from other governments	447,468	172	447,640	28,887
Due from component units	1,285	2,866	4,151	271
Internal balances	556	(556)	-	-
Inventories	26,218	5,488	31,706	5,178
Advances to component units	16,530	22,660	39,190	-
Long-term loans/notes receivable	464,800	45,014	509,814	469,305
Equity in pooled investments (Note 3)	2,268,060	4,962	2,273,022	48,514
Investments (Note 3)	295,737	23,090	318,827	2,081,358
Securities lending collateral (Note 3)	29,313	2,049	31,362	45,742
Net pension asset (Note 6)	33,852	-	33,852	-
Other assets	14,242	1,449	15,691	86,507
Depreciable capital assets and infrastructure, net (Note 5)	4,167,450	9,676	4,177,126	788,405
Land and nondepreciable capital assets (Note 5)	1,824,514	9,724	1,834,238	99,142
Total assets	11,135,787	568,667	11,704,454	4,273,466
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	342,370	3,120	345,490	66,963
LIABILITIES				
Accounts payable (Note 4)	760,832	18,795	779,627	79,057
Lottery prizes payable	-	3,570	3,570	-
Due to primary government	-	-	-	4,151
Due to other governments	30,539	74	30,613	24
Due to component units	1,682	-	1,682	271
Due to pension trust funds	34,451	-	34,451	-
Advances from primary government	-	-	-	39,190
Unearned revenue	33,248	2,000	35,248	94,083
Amounts held in custody for others	18,103	30	18,133	14,668
Securities lending liability (Note 3)	29,313	2,049	31,362	45,742
Other liabilities	4,065	-	4,065	23,544
Short-term debt (Note 11)	-	107,880	107,880	-
Long-term liabilities (Note 11):				
Due within one year	143,376	14,900	158,276	194,353
Due in more than one year	434,955	7,827	442,782	1,606,210
Net pension liability (Note 6)	1,789,810	14,293	1,804,103	206,646
OPEB implicit rate subsidy (Note 7)	289,175	5,132	294,307	122,245
Total liabilities	3,569,549	176,550	3,746,099	2,430,184
DEFERRED INFLOWS OF RESOURCES (Note 4)	55,436	229	55,665	2,477

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET POSITION				
Net investment in capital assets	\$ 5,873,003	\$ 18,986	\$ 5,891,989	\$ 597,644
Restricted for:				
General government	6,873	-	6,873	-
Transportation	24,450	-	24,450	-
Natural resources	493,194	-	493,194	-
Public safety	242,570	-	242,570	-
Education	13,074	-	13,074	-
Funds held as permanent investments:				
Nonexpendable	1,596,057	-	1,596,057	391,658
Expendable	575,746	-	575,746	-
Unemployment compensation	-	298,631	298,631	-
Montana Board of Housing	-	-	-	153,326
Other purposes	-	69,103	69,103	256,566
Unrestricted	(971,795)	8,288	(963,507)	508,574
Total net position	\$ 7,853,172	\$ 395,008	\$ 8,248,180	\$ 1,907,768

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES					NET (EXPENSE) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
Primary government:						
Governmental activities:						
General government	\$ 688,798	\$ 143,681	\$ 141,349	\$ 207	\$	(403,561)
Public safety	454,194	161,380	41,040	7		(251,767)
Transportation	484,214	28,447	58,635	407,531		10,399
Health and human services	2,668,273	40,260	1,968,162	-		(659,851)
Education	1,344,121	32,750	184,950	1,713		(1,124,708)
Natural resources	295,853	165,409	112,575	25,402		7,533
Interest on long-term debt	7,484	-	-	-		(7,484)
Total governmental activities	5,942,937	571,927	2,506,711	434,860		(2,429,439)
Business-type activities:						
Unemployment Insurance	117,788	103,928	13,702	-		(158)
Liquor Stores	83,313	96,475	-	-		13,162
State Lottery	43,377	52,459	-	-		9,082
Economic Development Bonds	1,851	37	1,748	-		(66)
Hail Insurance	1,696	1,156	8	-		(532)
Other Service	72,489	24,290	44,200	604		(3,395)
Prison Funds	8,140	7,648	-	-		(492)
MUS ¹ Group Insurance	81,051	99,448	403	-		18,800
MUS ¹ Workers Compensation	2,786	3,838	158	-		1,210
Total business-type activities	412,491	389,279	60,219	604		37,611
Total primary government	\$ 6,355,428	\$ 961,206	\$ 2,566,930	\$ 435,464	\$	(2,391,828)
Component units:						
Montana Board of Housing	\$ 20,822	\$ 1,541	\$ 19,047	\$ -	\$	(234)
Facility Finance Authority	462	783	75	-		396
Montana State Fund	210,763	169,677	-	-		(41,086)
Montana State University	573,551	272,972	181,074	5,005		(114,500)
University of Montana	458,117	191,932	161,079	14,118		(90,988)
Total component units	\$ 1,263,715	\$ 636,905	\$ 361,275	\$ 19,123	\$	(246,412)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net position:				
Net (expense) revenue	\$ (2,429,439)	\$ 37,611	\$ (2,391,828)	\$ (246,412)
General revenues:				
Taxes:				
Property	277,254	-	277,254	-
Fuel	231,305	-	231,305	-
Natural resource	171,629	-	171,629	-
Individual income	1,160,431	-	1,160,431	-
Corporate income	132,538	-	132,538	-
Other (Note 1)	378,976	27,958	406,934	-
Unrestricted grants and contributions	13,596	2,845	16,441	107
Settlements	33,824	236	34,060	-
Unrestricted investment earnings	25,125	31	25,156	79,670
Transfers from primary government	-	-	-	240,167
Gain (loss) on sale of capital assets	15,640	(274)	15,366	594
Miscellaneous	4,892	870	5,762	1,237
Contributions to term and permanent endowments	-	-	-	52,218
Transfers between primary government	46,141	(46,141)	-	-
Total general revenues, contributions, and transfers	2,491,351	(14,475)	2,476,876	373,993
Change in net position	61,912	23,136	85,048	127,581
Total net position - July 1 - as previously reported	7,727,031	371,973	8,099,004	1,778,981
Adjustments to beginning net position (Note 2)	64,229	(101)	64,128	1,206
Total net position - July 1 - as adjusted	7,791,260	371,872	8,163,132	1,780,187
Total net position - June 30	\$ 7,853,172	\$ 395,008	\$ 8,248,180	\$ 1,907,768

¹ Montana University System

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2017
 (amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	\$ 67,575	\$ 714,907	\$ 102,551
Receivables (net)	246,972	85,132	39,247
Interfund loans receivable (Note 12)	123,044	54,773	-
Due from other governments	12,423	919	434,125
Due from other funds (Note 12)	28,755	20,938	75
Due from component units	-	1,091	92
Inventories	3,065	20,195	-
Equity in pooled investments (Note 3)	-	347,899	-
Long-term loans/notes receivable	-	434,878	4,509
Advances to other funds (Note 12)	526	22,767	-
Advances to component units	-	8,729	-
Investments (Note 3)	6,814	105,094	4,821
Securities lending collateral (Note 3)	-	10,354	-
Other assets	5,887	6,400	146
Total assets	495,061	1,834,076	585,566
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	256,428	133,175	345,805
Interfund loans payable (Note 12)	-	11,624	164,372
Due to other governments	569	27,197	2,774
Due to other funds (Note 12)	269	13,657	14,418
Due to component units	34,585	363	1,184
Advances from other funds (Note 12)	-	10,018	17,811
Unearned revenue	2,514	28,517	7,382
Amounts held in custody for others	5,443	12,502	7
Securities lending liability (Note 3)	-	10,354	-
Other liabilities	2	664	-
Total liabilities	299,810	248,071	553,753
DEFERRED INFLOWS OF RESOURCES	128,267	4,548	19,735
Fund balances (Note 14):			
Nonspendable	7,696	21,076	47
Restricted	-	992,564	12,031
Committed	-	567,034	-
Assigned	11,355	783	-
Unassigned	47,933	-	-
Total fund balances	66,984	1,581,457	12,078
Total liabilities, deferred inflows of resources, and fund balances	\$ 495,061	\$ 1,834,076	\$ 585,566

The notes to the financial statements are an integral part of this statement.

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR		TOTAL
\$ 60,239	\$ 22,716	\$ 72,198	\$	1,040,186
8,119	6,438	6,298		392,206
-	-	-		177,817
-	-	-		447,467
13	-	1,757		51,538
103	-	-		1,286
-	-	-		23,260
867,285	701,083	338,793		2,255,060
-	-	25,413		464,800
3,996	-	9,767		37,056
7,802	-	-		16,531
148,403	-	3,649		268,781
6,807	5,502	2,666		25,329
-	-	-		12,433
1,102,767	735,739	460,541		5,213,750
-	-	3,300		738,708
1,677	-	277		177,950
-	-	-		30,540
32	-	602		28,978
-	-	-		36,132
-	-	13,876		41,705
-	-	-		38,413
-	96	54		18,102
6,807	5,502	2,666		25,329
-	-	-		666
8,516	5,598	20,775		1,136,523
-	4,683	410		157,643
540,477	725,458	323,588		1,618,342
-	-	28,748		1,033,343
553,774	-	85,619		1,206,427
-	-	1,401		13,539
-	-	-		47,933
1,094,251	725,458	439,356		3,919,584
\$ 1,102,767	\$ 735,739	\$ 460,541	\$	5,213,750

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

JUNE 30, 2017

(amounts expressed in thousands)

Total fund balances - governmental funds	\$	3,919,584
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Amounts reported for governmental activities in the Statement of Net Position are different due to:

Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):

Land and nondepreciable capital assets	\$ 1,824,514		
Depreciable capital assets and infrastructure, net	<u>4,167,450</u>		5,991,964

Deferred outflows of resources represent a consumption of net assets that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds.			342,370
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Other assets not available in the current period and therefore are not reported in the governmental funds:

Net pension asset			33,852
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets and long-term liabilities reported in specific areas.			129,805
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Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.			(9,293)
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Deferred inflows of resources represent an acquisition of net assets that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds.			102,206
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Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):

Net pension liability	(1,789,810)		
OPEB implicit rate subsidy	(289,175)		
Other long-term liabilities	<u>(578,331)</u>		<u>(2,657,316)</u>

Total net position - governmental activities	\$	<u><u>7,853,172</u></u>
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The notes to the financial statements are an integral part of this statement.

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017
 (amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	\$ 125,737	\$ 199,986	\$ -
Taxes:			
Natural resource	71,042	69,683	-
Individual income	1,161,730	-	-
Corporate income	133,247	-	-
Property	258,698	18,556	-
Fuel	-	231,296	-
Other	237,589	138,386	-
Charges for services/fines/forfeits/settlements	35,035	123,145	35,494
Investment earnings	7,400	9,358	384
Securities lending income	55	201	2
Sale of documents/merchandise/property	369	4,940	3
Rentals/leases/royalties	8	1,213	-
Contributions/premiums	4,727	26,406	-
Grants/contracts/donations	10,116	23,448	108
Federal	18,416	6,332	2,694,127
Federal indirect cost recoveries	244	45,663	79,893
Other revenues	957	3,667	290
Total revenues	2,065,370	902,280	2,810,301
EXPENDITURES			
Current:			
General government	353,582	190,981	105,148
Public safety	318,926	93,619	13,475
Transportation	-	217,578	111,680
Health and human services	538,738	165,410	1,947,964
Education	1,058,596	72,246	214,285
Natural resources	37,738	213,629	68,119
Debt service:			
Principal retirement	56	638	30
Interest/fiscal charges	197	359	6
Capital outlay	7,270	52,517	319,171
Securities lending	19	90	1
Total expenditures	2,315,122	1,007,067	2,779,879
Excess of revenue over (under) expenditures	(249,752)	(104,787)	30,422
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	-	184	-
Insurance proceeds	-	43	-
General capital asset sale proceeds	252	325	42
Energy conservation loans	-	1,770	-
Transfers in (Note 12)	73,887	157,075	1,679
Transfers out (Note 12)	(45,337)	(27,054)	(28,929)
Total other financing sources (uses)	28,802	132,343	(27,208)
Net change in fund balances	(220,950)	27,556	3,214
Fund balances - July 1 - as previously reported	271,310	1,554,015	8,958
Adjustments to beginning fund balances (Note 2)	16,370	(984)	(94)
Fund balances - July 1 - as adjusted	287,680	1,553,031	8,864
Increase (decrease) in inventories	254	870	-
Fund balances - June 30	\$ 66,984	\$ 1,581,457	\$ 12,078

The notes to the financial statements are an integral part of this statement.

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
\$ -	\$ 1,551	\$ -	\$ 327,274	
23,811	-	7,281	171,817	
-	-	-	1,161,730	
-	-	-	133,247	
-	-	-	277,254	
-	-	-	231,296	
-	-	1,762	377,737	
-	-	12,830	206,504	
12,665	6,200	12,912	48,919	
279	226	107	870	
-	10,952	4,241	20,505	
-	48,370	-	49,591	
-	-	-	31,133	
-	5	-	33,677	
-	-	-	2,718,875	
-	-	-	125,800	
-	(2)	-	4,912	
36,755	67,302	39,133	5,921,141	
-	-	3,651	653,362	
-	-	974	426,994	
-	-	-	329,258	
-	-	736	2,652,848	
-	-	89	1,345,216	
-	4,390	205	324,081	
-	-	33,165	33,889	
-	-	8,958	9,520	
-	1,332	26,663	406,953	
106	86	41	343	
106	5,808	74,482	6,182,464	
36,649	61,494	(35,349)	(261,323)	
-	-	-	184	
-	-	-	43	
-	15,183	13	15,815	
-	-	-	1,770	
10	8	50,346	283,005	
(43,013)	(61,678)	(29,426)	(235,437)	
(43,003)	(46,487)	20,933	65,380	
(6,354)	15,007	(14,416)	(195,943)	
1,100,605	710,451	453,772	4,099,111	
-	-	-	15,292	
1,100,605	710,451	453,772	4,114,403	
-	-	-	1,124	
\$ 1,094,251	\$ 725,458	\$ 439,356	\$ 3,919,584	

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(amounts expressed in thousands)

Net change in fund balances - total governmental funds		\$	(195,943)
Amounts reported for governmental activities in the Statement of Activities are different due to:			
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):			
Capital outlay	\$	406,953	
Depreciation expense and amortization		<u>(211,774)</u>	195,179
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.			(5,393)
Inventories of governmental funds are recorded as expenditures when purchased. However, in the Statement of Activities, inventories are expensed when consumed.			(8,000)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.			21,301
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.			20,470
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease long-term liabilities reported in the Statement of Net Position. In the current year these amounts consisted of:			
Accrued interest		2,363	
Other liabilities		(1,770)	
Capital lease financing		(184)	
Principal retirement		<u>33,889</u>	<u>34,298</u>
Change in net position - governmental activities		\$	<u><u>61,912</u></u>

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES -
	UNEMPLOYMENT	DEVELOPMENT			INTERNAL
	INSURANCE	BONDS	NONMAJOR	TOTAL	SERVICE
					FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 295,623	\$ 6,699	\$ 95,028	\$ 397,350	\$ 107,594
Receivables (net)	4,502	12,880	27,341	44,723	5,771
Interfund loans receivable (Note 12)	-	-	-	-	211
Due from other governments	38	-	134	172	1
Due from other funds (Note 12)	-	2,517	-	2,517	32
Due from component units	-	2,866	-	2,866	-
Inventories	-	-	5,488	5,488	2,958
Short-term investments (Note 3)	-	9,491	-	9,491	-
Securities lending collateral (Note 3)	-	-	2,049	2,049	3,983
Other current assets	-	-	129	129	1,810
Total current assets	300,163	34,453	130,169	464,785	122,360
Noncurrent assets:					
Advances to other funds (Note 12)	-	10,546	-	10,546	-
Advances to component units	-	22,660	-	22,660	-
Long-term investments (Note 3)	-	2,137	16,424	18,561	39,957
Long-term notes/loans receivable	842	44,119	53	45,014	-
Other long-term assets	-	-	1,320	1,320	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	10,123	10,123	6,059
Equipment	-	4	9,371	9,375	234,094
Infrastructure	-	-	1,175	1,175	-
Construction work in progress	-	-	4,615	4,615	6,962
Intangible assets	-	-	194	194	2,572
Other capital assets	-	-	4,309	4,309	-
Less accumulated depreciation	-	(3)	(15,018)	(15,021)	(138,678)
Total capital assets	-	1	19,399	19,400	111,340
Total noncurrent assets	842	79,463	37,196	117,501	151,297
Total assets	301,005	113,916	167,365	582,286	273,657
DEFERRED OUTFLOWS OF RESOURCES	-	65	3,055	3,120	9,088

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 2,299	\$ 457	\$ 16,039	\$ 18,795	\$ 19,174
Lottery prizes payable	-	-	2,618	2,618	-
Interfund loans payable (Note 12)	75	-	-	75	3
Due to other governments	-	-	74	74	-
Due to other funds (Note 12)	-	-	13,544	13,544	1,832
Unearned revenue	-	-	2,000	2,000	1,624
Lease/installment purchase payable (Note 10)	-	-	195	195	1,456
Short-term debt (Note 11)	-	107,880	-	107,880	-
Bonds/notes payable - net (Note 11)	-	-	-	-	1,305
Amounts held in custody for others	-	-	30	30	1
Securities lending liability (Note 3)	-	-	2,049	2,049	3,983
Estimated insurance claims (Note 8)	-	-	13,658	13,658	21,585
Compensated absences payable (Note 11)	-	33	1,011	1,044	3,873
Arbitrage rebate tax payable (Note 11)	-	3	-	3	-
Total current liabilities	2,374	108,373	51,218	161,965	54,836
Noncurrent liabilities:					
Lottery prizes payable	-	-	952	952	-
Advances from other funds (Note 12)	-	-	-	-	5,897
Lease/installment purchase payable (Note 10)	-	-	220	220	4,457
Bonds/notes payable - net (Note 11)	-	-	-	-	494
Estimated insurance claims (Note 8)	-	-	6,584	6,584	12,164
Compensated absences payable (Note 11)	-	30	973	1,003	3,590
Arbitrage rebate tax payable (Note 11)	-	20	-	20	-
Net pension liability (Note 6)	-	385	13,908	14,293	55,582
OPEB implicit rate subsidy (Note 7)	-	88	5,044	5,132	16,367
Total noncurrent liabilities	-	523	27,681	28,204	98,551
Total liabilities	2,374	108,896	78,899	190,169	153,387
DEFERRED INFLOWS OF RESOURCES	-	1	228	229	573
NET POSITION					
Net investment in capital assets	-	1	18,985	18,986	97,732
Restricted for:					
Unemployment compensation	298,631	-	-	298,631	-
Other purposes	-	1,522	67,581	69,103	-
Unrestricted	-	3,561	4,727	8,288	31,053
Total net position	\$ 298,631	\$ 5,084	\$ 91,293	\$ 395,008	\$ 128,785

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES -
	UNEMPLOYMENT	DEVELOPMENT			INTERNAL
	INSURANCE	BONDS	NONMAJOR	TOTAL	SERVICE
					FUNDS
Operating revenues:					
Charges for services	\$ 111	\$ 37	\$ 167,526	\$ 167,674	\$ 151,601
Investment earnings	6,809	81	669	7,559	418
Securities lending income	-	-	17	17	18
Financing income	-	1,667	-	1,667	-
Contributions/premiums	103,816	-	117,350	221,166	201,857
Grants/contracts/donations	6,894	-	46,736	53,630	2,147
Other operating revenues	-	-	1,543	1,543	5,656
Total operating revenues	117,630	1,785	333,841	453,256	361,697
Operating expenses:					
Personal services	-	387	16,463	16,850	60,665
Contractual services	-	33	20,695	20,728	34,111
Supplies/materials	-	13	85,023	85,036	22,403
Benefits/claims	117,788	50	132,437	250,275	177,091
Depreciation	-	-	1,068	1,068	11,479
Amortization	-	-	122	122	1,133
Utilities/rent	-	50	1,092	1,142	7,791
Communications	-	6	1,456	1,462	13,393
Travel	-	3	368	371	572
Repairs/maintenance	-	-	951	951	18,870
Grants	-	-	-	-	127
Lottery prize payments	-	-	30,595	30,595	-
Securities lending expense	-	-	8	8	11
Arbitrage rebate tax	-	6	-	6	-
Interest expense	-	1,241	32	1,273	327
Other operating expenses	-	62	2,774	2,836	6,416
Total operating expenses	117,788	1,851	293,084	412,723	354,389
Operating income (loss)	(158)	(66)	40,757	40,533	7,308
Nonoperating revenues (expenses):					
Tax revenues	-	-	27,958	27,958	-
Non-employer pension revenue	-	6	238	244	971
Insurance proceeds	-	-	13	13	232
Gain (loss) on sale of capital assets	-	-	(223)	(223)	96
Federal indirect cost recoveries	-	-	-	-	8,642
Increase (decrease) value of livestock	-	-	166	166	-
Total nonoperating revenues (expenses)	-	6	28,152	28,158	9,941
Income (loss) before contributions and transfers	(158)	(60)	68,909	68,691	17,249
Capital contributions	-	-	3,262	3,262	2,441
Transfers in (Note 12)	-	-	351	351	1,786
Transfers out (Note 12)	-	-	(49,168)	(49,168)	(1,005)
Change in net position	(158)	(60)	23,354	23,136	20,471
Total net position - July 1 - as previously reported	298,177	5,177	68,619	371,973	110,532
Adjustments to beginning net position (Note 2)	612	(33)	(680)	(101)	(2,218)
Total net position - July 1 - as adjusted	298,789	5,144	67,939	371,872	108,314
Total net position - June 30	\$ 298,631	\$ 5,084	\$ 91,293	\$ 395,008	\$ 128,785

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	\$ 102,333	\$ 37	\$ 286,004	\$ 388,374	\$ 350,624
Payments to suppliers for goods and services	(814)	(168)	(114,755)	(115,737)	(91,420)
Payments to employees	-	(381)	(17,758)	(18,139)	(64,913)
Grant receipts (expenses)	6,579	-	46,730	53,309	2,031
Cash payments for claims	(116,093)	-	(130,511)	(246,604)	(169,669)
Cash payments for prizes	-	-	(30,564)	(30,564)	-
Other operating revenues	-	7	1,543	1,550	14,298
Other operating payments	-	-	(2,774)	(2,774)	(6,416)
Net cash provided by (used for) operating activities	(7,995)	(505)	37,915	29,415	34,535
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	27,958	27,958	-
Transfer to other funds	-	-	(49,168)	(49,168)	(1,005)
Transfer from other funds	-	-	351	351	1,785
Proceeds from interfund loans/advances	645	7,272	6	7,923	715
Payment of interfund loans and advances	-	(8,479)	(80)	(8,559)	(210)
Proceeds from bonds and notes	-	20,000	-	20,000	-
Payment of principal and interest on bonds and notes	-	(10,439)	(32)	(10,471)	(1,596)
Pension related payments	-	(33)	-	(33)	-
Proceeds from nonemployer pension contributions	-	-	235	235	972
Net cash provided by (used for) noncapital financing activities	645	8,321	(20,730)	(11,764)	661
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	13	13	233
Acquisition of capital assets	-	-	(1,563)	(1,563)	(17,272)
Proceeds from sale of capital assets	-	-	585	585	308
Net cash provided by (used for) capital and related financing activities	-	-	(965)	(965)	(16,731)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(163,775)	11,126	(152,649)	(2,097)
Proceeds (loss) on sales or maturities of investments	-	161,484	-	161,484	-
Proceeds (loss) from securities lending transactions/investments	-	-	17	17	18
Interest and dividends on investments	6,808	114	669	7,591	418
Payment of securities lending costs	-	-	(8)	(8)	(11)
Collections of principal and interest on loans	-	33,870	-	33,870	-
Cash payment for loans	-	(46,697)	-	(46,697)	-
Net cash provided by (used for) investing activities	6,808	(15,004)	11,804	3,608	(1,672)
Net increase (decrease) in cash and cash equivalents	(542)	(7,188)	28,024	20,294	16,793
Cash and cash equivalents, July 1	296,165	13,887	67,004	377,056	90,801
Cash and cash equivalents, June 30	\$ 295,623	\$ 6,699	\$ 95,028	\$ 397,350	\$ 107,594

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	ACTIVITIES INTERNAL SERVICE FUNDS	
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (158)	\$ (66)	\$ 40,757	\$ 40,533	\$	7,308
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:						
Depreciation	-	1	1,068	1,069		11,479
Amortization	-	-	122	122		1,133
Securities lending expense	-	-	8	8		11
Investment earnings	(6,198)	(81)	(669)	(6,948)		(418)
Securities lending income	-	-	(17)	(17)		(18)
Financing income	-	(1,667)	-	(1,667)		-
Interest expense	-	1,241	32	1,273		327
Other revenue	-	7	-	7		8,642
Arbitrage rebate tax	-	6	-	6		-
Change in assets, deferred outflows, liabilities and deferred inflows:						
Decr (Incr) in accounts receivable	(823)	-	954	131		(2,797)
Decr (Incr) in due from other funds	-	-	-	-		56
Decr (Incr) in due from other governments	(4)	-	(6)	(10)		11
Decr (Incr) in inventories	-	-	(234)	(234)		605
Decr (Incr) in other assets	-	-	172	172		(92)
Incr (Decr) in accounts payable	(812)	-	(5,021)	(5,833)		1,412
Incr (Decr) in due to other funds	-	(1)	672	671		436
Incr (Decr) in due to other governments	-	-	(7)	(7)		-
Incr (Decr) in lottery prizes payable	-	-	31	31		-
Incr (Decr) in unearned revenue	-	-	(348)	(348)		(55)
Incr (Decr) in amounts held in custody for others	-	-	(22)	(22)		-
Incr (Decr) in compensated absences payable	-	3	(31)	(28)		345
Incr (Decr) in OPEB implicit rate subsidy	-	10	472	482		1,573
Incr (Decr) in estimated claims	-	-	(105)	(105)		433
Incr (Decr) in other payables	-	2	(185)	(183)		3,540
Incr (Decr) in net pension liability and related accounts	-	40	272	312		604
Net cash provided by (used for) operating activities	\$ (7,995)	\$ (505)	\$ 37,915	\$ 29,415	\$	34,535
Schedule of noncash transactions:						
Capital asset acquisitions from contributed capital	-	-	3,262	3,262		2,441
Incr (Decr) in fair value of investments	-	75	480	555		450
Total noncash transactions	\$ -	\$ 75	\$ 3,742	\$ 3,817	\$	2,891

The notes to the financial statements are an integral part of this statement.

STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**

JUNE 30, 2017

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS				PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS							
Cash/cash equivalents (Note 3)	\$	295,757	\$	98,146	\$	1,033,403	\$ 33,484
Receivables (net):							
Accounts receivable		25,916		-		-	609
Interest		268		17		968	-
Due from primary government		34,451		-		-	-
Due from other PERB plans		925		-		-	-
Long-term loans/notes receivable		26		-		-	-
Total receivables		61,586		17		968	609
Investments at fair value:							
Equity in pooled investments (Note 3)		10,637,092		-		12,771	-
Other investments (Note 3)		681,160		154,943		-	-
Total investments		11,318,252		154,943		12,771	-
Securities lending collateral (Note 3)		62,235		-		100	-
Capital Assets:							
Land		35		-		-	-
Buildings/improvements		186		-		-	-
Equipment		96		-		-	-
Construction work in progress		225		-		-	-
Accumulated depreciation		(231)		-		-	-
Intangible assets		6,795		-		-	-
Total capital assets		7,106		-		-	-
Other assets		-		37,402		-	438
Total assets		11,744,936		290,508		1,047,242	34,531
DEFERRED OUTFLOWS OF RESOURCES							
		316		-		-	-
LIABILITIES							
Accounts payable		5,032		9		936	466
Due to other PERB plans		924		-		-	-
Unearned revenue		238		-		-	-
Amounts held in custody for others		-		-		-	34,065
Securities lending liability (Note 3)		62,235		-		100	-
Compensated absences payable		705		-		-	-
Net pension liability (Note 6)		1,533		-		-	-
OPEB implicit rate subsidy (Note 7)		1,141		-		-	-
Total liabilities		71,808		9		1,036	34,531
DEFERRED INFLOWS OF RESOURCES							
		5		-		-	-
NET POSITION							
Held in trust for pension benefits and other purposes	\$	11,673,439	\$	290,499	\$	1,046,206	\$

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS			PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS					
Contributions/premiums:					
Employer	\$	243,314	\$	-	\$ -
Employee		234,839		-	-
Other contributions		104,173		15,228	1,214,996
Net investment earnings:					
Investment earnings		1,296,417		13,511	7,667
Administrative investment expense		(56,387)		-	-
Securities lending income		3,141		-	26
Securities lending expense		(1,237)		-	(11)
Charges for services		587		-	-
Other additions		540		5,066	-
Total additions		1,825,387		33,805	1,222,678
DEDUCTIONS					
Benefits		823,355		-	-
Refunds		23,588		-	-
Distributions		-		33,525	1,079,412
Administrative expenses:					
Personal services		5,108		-	-
Contractual services		5,466		841	-
Supplies/materials		160		-	-
Depreciation		25		-	-
Amortization		508		-	-
Utilities/rent		384		-	-
Communications		214		-	-
Travel		60		-	-
Repair/maintenance		19		-	-
Other operating expenses		424		86	-
Local assistance		6		-	-
Transfers to MUS-RP		128		-	-
Transfers to PERS-DCRP		1,420		-	-
Total deductions		860,865		34,452	1,079,412
Change in net position		964,522		(647)	143,266
Net position - July 1 - as previously reported		10,708,919		291,146	902,940
Adjustments to beginning net position (Note 2)		(2)		-	-
Net position - July 1 - as adjusted		10,708,917		291,146	902,940
Net position - June 30	\$	11,673,439	\$	290,499	\$ 1,046,206

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana (State) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State includes funds that comprise the primary government and its component units. The component units are entities that the State is financially accountable for, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The condensed financial statements, presented in Note 18, include the financial data of the entities listed below.

Complete financial statements for each of the individual discretely presented component units may be obtained at the following addresses:

Montana Board of Housing 301 South Park, Room 240 PO Box 200528 Helena, MT 59620-0528	Montana State Fund 855 Front Street PO Box 4759 Helena, MT 59604-4759
Facility Finance Authority 2401 Colonial Drive, 3 rd Floor PO Box 200506 Helena, MT 59620-0506	Universities and Colleges Commissioner of Higher Education 2500 Broadway Street Helena, MT 59620-3201

Montana Board of Housing (MBOH) – MBOH, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. MBOH issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. MBOH is audited annually by the State’s Legislative Audit Division.

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State of Montana may be pledged for the amounts so issued. FFA is attached to the State of Montana, Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State’s Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Section 39-71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers’ compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. This Board has full power, authority, and jurisdiction in the administration of MSF. MSF is attached to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State’s Legislative Audit Division.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. If MSF is dissolved by an act of law, the assets held by MSF are subject to the disposition provided by the Legislature enacting the dissolution with due regard given to obligations incurred and existing (Section 39-71-2322, MCA).

MSF handles the administration of the claims of Montana State Fund and State of Montana (Old Fund) including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid. Old Fund covers workers’ compensation claims that were incurred before July 1, 1990, and is reported within the governmental activities of the primary government, on the government-wide financial statements.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and Great Falls College Montana State University; and University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, University of Montana - Western and Helena College University of Montana. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State’s Legislative Audit Division.

Though the following organizations perform functions related to the Montana University System, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private nonprofit corporation; and (3) the Student Assistance Foundation of Montana, a private nonprofit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The state and federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund.

Fiduciary Fund Component Units

Complete financial statements for each of the individual fiduciary fund component units may be obtained at the following addresses:

Teachers’ Retirement System
1500 East Sixth Avenue
PO Box 200139
Helena, MT 59620-0139

Public Employees’ Retirement Board
100 North Park, Suite 200
PO Box 200131
Helena, MT 59620-0131

Teachers’ Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to benefit recipients of Montana's public teaching profession. The plan is funded from employer and employee contributions, investment earnings, and the State’s General Fund. The benefit payments and administrative costs of the Teachers’ Retirement System are paid from the same funding sources. The system is audited annually by the State’s Legislative Audit Division. Further detail related to the Teachers’ Retirement System is provided in Note 6.

Public Employees’ Retirement Board (Pension and Other Employee Benefit Trust Funds) – The Public Employees’ Retirement Board (PERB) is appointed by the Governor and administers eleven separate plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees’ Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges’; the Highway Patrol Officers’; the Sheriffs’; the Game Wardens’ and Peace Officers’;

the Municipal Police Officers'; the Firefighters' Unified Retirement Systems; the Volunteer Firefighters' Compensation Act; and the State of Montana Deferred Compensation Program (457 Plan) retirement plans. The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

PERB is responsible for the eleven separate public employee plans, including the Deferred Compensation Program and Other Post Employment Benefit plan. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Further detail related to the PERB is provided in Note 6 and its OPEB plan information is provided in Note 7.

B. Government-wide and Fund Financial Statements

The government-wide financial statements, Statement of Net Position and Statement of Activities, report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the impact of interfund activity has been removed from these statements. Governmental activities, which are normally supported by fees, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues. The State does not allocate indirect expenses to functions in the Statement of Activities.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary fund statements are reported only in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

As a general rule, material interfund revenues and expenses have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue available if it is expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual

accounting. However, debt service expenditures as well as expenditures relating to compensated absences, claims, and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts for activities funded from state resources used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately an \$84.2 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a \$20.4 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the State Special Revenue Fund.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – To account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans and other post employment benefit plan. Plan members receive retirement, disability, death, and lump-sum payments from the fund. Further detail related to the individual plans is provided in Note 6 and Note 7.

Private-Purpose Trust Funds – To account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation, and bonds held in trust.

Investment Trust Fund – To account for the receipt of monies and the distribution of related investment earnings to local government agencies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP).

Agency Funds – To account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds

The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Severance Tax Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act (EDBA) programs and the Municipal Finance Consolidation Act (MFCA) programs. The EDBA programs provide qualifying Montana businesses access to tax-exempt funds through the issuance of conduit (no-commitment) debt. The MFCA programs provide low cost funds to eligible Montana governments to finance capital expenditures. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. Further detail related to cash and cash equivalents is provided in Note 3.

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes, interest and dividends, taxes due within 60 days of fiscal year-end, and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail related to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are reported at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method generally to be appropriate for most agencies. Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, inventory balances are shown as nonspendable, indicating they do not constitute available expendable resources. Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Net Position

Certain investments of the Economic Development Bonds Fund are classified as restricted net position on the Statement of Fund Net Position for proprietary funds because their use is limited by applicable bond indenture agreements. Net position associated with the Unemployment Insurance Fund is also classified as restricted.

I. Equity in Pooled Investments

To account for the custody of monies, the Montana Board of Investments (BOI) uses one internal investment pool and one external investment pool. The internal investment pool is the Consolidated Asset Pension Pool (CAPP). The external investment pool is the Trust Fund Investment Pool (TFIP). Current State agency participation in the pools is within the enterprise funds, permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The State's nine retirement funds can only participate in CAPP. Other State agencies and qualifying local governments can participate in TFIP. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to cash and cash equivalents and investments is provided in Note 3.

J. Investments

For agencies whose investment needs are not met by BOI's established investment pools, BOI provides separate investments, which are combined and reported as All Other Funds (AOF). AOF participants have direct fixed income, equity and Montana mortgage and loan investments. AOF investments are reported at fair value. Other State agencies, on a limited basis by statute, may administer other long-term investments. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-

backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value on the Statement of Net Position. Further detail related to investments is provided in Note 3.

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation on the Statement of Net Position and depreciation expense on the Statement of Activities for these assets. Further detail related to capital assets is provided in Note 5.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated or amortized. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 10 to 50 years for infrastructure, 7 to 20 years for building improvements and 3 to 10 years for equipment. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate. Amortization is on a straight-line basis with estimated useful lives of 4 years for software (internally and externally generated), 30 years for land use rights, and 20 years for other intangibles.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure and internally-generated software is \$500,000. The capitalization threshold for intangible assets is \$100,000. The capitalization limit for other capital assets is \$5,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investment, and pension related components and are reported on both the government-wide and proprietary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue is recognized as a liability on government-wide, governmental and proprietary fund financial statements. Further detail related to deferred outflows of resources and deferred inflows of resources is provided in Note 4.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported on the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund on the fund financial statements. The remaining portion of such obligations is reported on the government-wide financial statements. Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. Further detail related to leases/installment purchases payable and state debt is provided in Note 10 and Note 11, respectively.

N. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, on the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. On the governmental fund financial statements no asset or liability is recorded related to assets under capital leases. Rather, on the

governmental fund financial statements, at the inception of a capital lease, capital outlay expenditures and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to capital leases is provided in Note 10.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the period they are incurred. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds payable are recorded net of any applicable premium or discount. Further detail related to long-term debt is provided in Note 11.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2016, was 21,533 hours. For fiscal year 2017, 718 sick leave hours, 157 annual leave hours, and 2,759 excess annual leave hours were contributed to the sick leave pool, and 2,287 hours were withdrawn, leaving a balance of 22,880 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only on the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. Further detail related to compensated absences is provided in Note 11.

Q. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$71.4 million as of June 30, 2017. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

R. Fund Balance/Net Position

Fund Balance

The classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is legally or contractually required to remain intact or is not in spendable form such as inventories, and, in the General Fund, long-term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State Constitution or external parties, such as the federal government, or through enabling legislation. For the

purpose of determining restricted amounts, enabling legislation does not include commitments resulting from State legislation if these constraints can be removed or changed by a similar legislative action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the State's Legislature, through legislation passed into law.

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. There is not a projected spend down for fiscal year 2018, thus a related assignment of fund balance is not reported at 2017 fiscal year-end.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the General Fund. When resources meeting more than one of these spendable classifications are commingled in an account on the State's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-General Fund money be spent first whenever possible so any related available unassigned balance would be spent last.

Minimum General Fund - Fund Balance

As of June 30, 2017, the State did not maintain a stabilization fund. However, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance is in compliance with the minimum ending fund balance of General Fund appropriations for the biennium. Under circumstances when a deficit of this level is projected during a biennium, the Governor may direct reductions from any General Fund expenditure not exempted by Section 17-7-140, MCA, including House Bill (HB) 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of General Fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately one-third of General Fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling

legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of \$ 3.3 billion.

S. Property Taxes

Real property taxes are normally levied in October and are usually payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Property tax payments are recognized as deferred inflows of resources if received prior to levy or availability.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

On the Statement of Activities, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	State Special Revenue	Other Governmental Funds	Business- Type Funds	Total
Accommodations	\$ 22,808	\$ 30,761	\$ -	\$ 19	\$ 53,588
Agriculture sales	-	9,099	-	-	9,099
Cigarette/tobacco	36,774	46,543	1,762	-	85,079
Car rental	3,272	1,091	-	-	4,363
Contractors gross receipts	3,078	-	-	-	3,078
Energy tax	7,465	-	-	-	7,465
Fire protection	-	3,597	-	-	3,597
Hospital benefit assessment	4,351	-	-	-	4,351
Insurance premium	75,357	30,426	-	-	105,783
Light vehicle registration	-	4,243	-	-	4,243
Liquor tax	5,432	2,194	-	27,939	35,565
Livestock	-	4,810	-	-	4,810
Other taxes	333	1,557	-	-	1,890
Public service commission	-	4,737	-	-	4,737
Railroad car companies	3,806	-	-	-	3,806
Telephone license	15,517	-	-	-	15,517
Video gaming	59,956	7	-	-	59,963
Total other taxes	\$238,149	\$139,065	\$1,762	\$27,958	\$406,934

U. Tax Abatements

In the Montana Board of Investment's (BOI) Commercial Loan Program within the AOF, by statute, the infrastructure loan program is funded by an \$80.0 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to BOI for the loan repayment. BOI reviews each loan and, only upon verification that the entities meet the loan requirements, is the loan approved by BOI. The local government entity must pass a resolution authorizing the acceptance of the commitment agreement. BOI indemnifies the local government regarding repayment of the loan.

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is \$16.7 thousand times the number of full-time jobs created and the minimum loan size is \$250.0 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job

creation. The reduction will be reflected in the user fee rate charged the basic sector business upon BOI review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. BOI may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must annually provide payroll documentation to BOI.

Pursuant to statute, a business that is created or expanded as the result of an Infrastructure Loan is entitled to a credit against either their State individual income taxes or corporate income taxes for the portion of the fees attributable to the use of the infrastructure. The total amount of tax credit claimed may not exceed the amount of the loan. The credit may be carried forward for seven years or carried back for three years.

During the fiscal year ended June 30, 2017, basic sector business entities made total user fee payments of \$3.2 million, representing \$2.1 million of principal and \$1.1 million in interest. During the fiscal year ended June 30, 2017, a total of \$3.4 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2017 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed

	Tax Year 2016	Tax Year 2015	Total
Corporate income tax	\$229	\$ 275	\$ 504
Individual income tax	41	2,813	2,854
Total amount claimed	<u>\$270</u>	<u>\$3,088</u>	<u>\$3,358</u>

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2017, the State of Montana implemented the provisions of GASB Statement No. 77, *Tax Abatement Disclosures* (GASB 77). This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

For the year ended June 30, 2017, the State of Montana implemented the provisions of GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

B. Adjustments to Beginning Net Position

For the year ended June 30, 2017, there was an overall increase to the General Fund's beginning fund balance. The most significant adjustments consisted of \$10.5 million related to Medicaid grant overmatching and \$6.9 million related to abandoned property.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$ 3,414,078
Equity in pooled investments	\$ 12,971,407
Investments	\$ 3,281,306

Carrying amounts for the bank balance for cash deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

Outside of statutory requirements, the State does not maintain a statewide risk policy for cash/cash equivalents or investments, held outside of the Montana Board of Investments (BOI). The investment risk policy for State cash/cash equivalents and investments, including the Economic Development Bonds (EDB) deposits and investments managed by BOI, have been detailed below.

(1) **BOI** was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Unified Investment Program is comprised of state funds, including pensions, trusts, insurance, and cash. Local government entities can, by statute, only voluntarily invest in the Short Term Investment Pool (STIP). With a qualifying event, local government entities may also, by statute, invest in the long-term investment portion of the program. BOI manages the Unified Investment Program pursuant to the “Prudent Expert Principle” mandated by State law, which requires an investment manager to:

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the Unified Investment Program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
3. discharge the duties solely in the interest of and for the benefit of the funds forming the Unified Investment Program.

BOI is not registered with the US Securities and Exchange Commission as an investment company. BOI's investment program is governed by Investment Policy Statements (IPS) approved by BOI.

Currently, only the nine retirement funds through participation in the Consolidated Asset Pension Pool (CAPP) and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and All Other Funds (AOF) participant, which provides BOI staff a broad strategic framework under which the investments are managed. The IPS's also reflect BOI approved asset allocation ranges.

To facilitate management of the Unified Investment Program, BOI uses a combination of investment pools and specific accounts to meet the financial goals and expectations of agencies and entities which entrust these funds to BOI. The investment activity reported within BOI's financial statements is included as part of the governmental, proprietary, and fiduciary fund financial statements within the CAFR.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as AOF. The pools, AOF Investments Managed, and eligible State participants are shown in the following table as of June 30, 2017:

<u>Pool/Investments Managed Name</u>	<u>Creation Date</u>	<u>Eligible Participants</u>
Consolidated Asset Pension Pool (CAPP)	03/31/17	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

Prior to November 2016, the asset allocation for the pension-only funds focused on five pools: The Montana Domestic Equity Pool, Montana International Equity Pool, Retirement Funds Bond Pool, Montana Private Equity Pool, and the Montana Real Estate Pool. The only participants in these pools were the pension systems. In November 2016, upon recommendation of the Chief Investment Officer, BOI's oversight board approved that the pension asset allocation was to focus on 13 asset classes versus the five pension-only pools. On March 31, 2017, BOI converted the five pension-only pools into a single CAPP, with 13 underlying asset classes, to align BOI's accounting and performance structure with the more detailed asset allocation formally approved in November 2016. CAPP's underlying asset classes are as follows:

<u>Asset Classes</u>	
Domestic Equity	Broad Fixed Income
International Equity	Investment Grade
Private Equity	Mortgage Backed Securities
Real Estate	High Yield
Natural Resources	Cash
TIPS (US Treasury Inflation-Protected Securities)	Diversified Strategies (1)
US Treasury/Agency	

(1) Not funded as of June 30, 2017

Separately issued investment Pool financial statements may be obtained by contacting:

Montana Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126

BOI's separately issued Unified Investment Program financial statements include the activity for Montana State Fund (MSF) within AOF on a June 30, 2017, basis. MSF, a discretely presented component of the State, by statute, prepared separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents, equity in pooled investments, and investments.

(a) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in STIP, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by BOI in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled

cash account is reported as a cash equivalent. BOI also manages STIP, which provides individual State agencies and local governments an opportunity to invest excess cash in a pool that is managed to preserve principal while providing 24-hour liquidity. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

STIP investments are investments primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 60 days or less.

(b) Investment securities are reported by investment portfolio and type in Table 2 – Cash Equivalents, Table 3 – Equity in Pooled Investments, and Table 4 – Investments. Included in the pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due to participants, and other miscellaneous payables.

Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made. The managers are not allowed to engage in currency speculation.

The net change in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date. Income due to participants is recorded on the date due to participants.

Investments are reported at fair value on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market prices represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment manager. All investment portfolios presented in the Statement of Net Asset Value are at “fair” value. BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices are determined using unobservable inputs.

CAPP invests directly in the underlying Pension Asset Classes (PAC) on behalf of the nine retirement systems within the BOI-approved asset allocation ranges. Each PAC has an underlying set of investment objectives and investment guidelines. For liquidity purposes, each PAC and external manager has a limited amount of cash/cash equivalents. With the PAC, it is invested in the State Street Short Term Investment Fund (STIF), which invests in high quality short-term securities. For external managers, it is invested per BOI established guidelines. The 13 underlying CAPP asset classes are described below.

Domestic Equity PAC - Invests primarily in US traded equity securities such as common stock. The type of portfolio structures utilized are separately managed accounts, commingled accounts, and exchange traded funds.

International Equity PAC - Invests primarily in international equity securities that trade on foreign exchanges in developed and emerging markets. The type of portfolio structures utilized are separately managed accounts, commingled accounts, and exchange traded funds.

Private Equity PAC - Invests in the entire capital structure of private companies. Investments are made through limited partnerships managed by a general partner. The limited partnerships typically have well-defined strategies such as buyout, venture, or distressed debt. Private Equity PAC investments are less liquid than other asset classes because the funds require a long holding period. Exchange traded funds are utilized to minimize the cash position.

Real Estate PAC - Invests primarily in real estate properties. Transactions are privately negotiated by a general partner through a limited partnership or an open-end fund. The funds typically have well-defined strategies such as core, value-add, or opportunistic. Private Real Estate PAC investments are less liquid than other asset classes because the funds require a long holding period. Exchange traded funds are utilized to minimize the cash position.

Natural Resource PAC - Invests primarily in energy and timber investments, but could include agriculture, water or commodity related funds. The investments are made through limited partnerships, managed by a general partner, and the funds are less liquid than other asset classes because they require a long holding period. Potential investment vehicles could include open-end funds, master limited partnerships, and exchange traded funds.

Intermediate Treasury Inflation Protected Securities (TIPS) PAC - Invests primarily in intermediate US TIPS or US Treasury securities that are indexed to inflation.

Intermediate US Treasury/Agency PAC - Invests primarily in debt obligations of the US Government including its agencies and instrumentalities.

Broad Fixed Income PAC - Invests primarily in core fixed income securities as represented in the Bloomberg Barclays US Aggregate Bond Index. The type of portfolio structures utilized are separately managed accounts, commingled accounts, and potentially exchange traded funds.

Intermediate Investment Grade PAC - Invests primarily in intermediate investment grade corporate bonds typically found in the Bloomberg Barclays US Corporate Bond Index. It includes US dollar denominated securities publicly issued by US and non-US industrial, utility, and financial users.

Mortgage Backed Securities PAC - Invests primarily in agency mortgage backed securities, asset backed securities, and commercial mortgage backed securities.

High Yield PAC - Invests primarily in US dollar denominated corporate bonds that are classified as high yield according to the major ratings agencies such as S&P, Moody's, or Fitch. The type of portfolio structures utilized are separately managed accounts and potentially commingled accounts or exchange traded funds.

Cash PAC - Invests primarily in highly liquid, money-market type securities through STIP.

Diversified Strategies PAC – Has not been funded as of June 30, 2017. Prior to future funding, BOI's Chief Investment Officer will propose the PAC Investment Objectives and Guidelines for approval by BOI.

TFIP - Invests primarily in investment grade, US dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

(c) Security Lending - BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the Bank split the earnings, 80/20 respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period. The Bank indemnifies BOI's credit risk exposure to the borrowers.

During fiscal year 2017, the Bank lent BOI's public securities and received as collateral: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2017. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2017 resulting from a borrower default. As of June 30, 2017, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Pension funds participated in the Quality D Short Term Investment Fund and the non-pension entities participated in the Securities Lending Quality Trust. During March 2017, participation in both funds was transitioned into the Navigator Securities Lending Government Money Market portfolio.

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 8 days and the average weighted final maturity was 49 days within the Navigator portfolio.

As of October 2016, STIP was no longer participating in the security lending program. STIP did not have securities on loan as of June 30, 2017. Security lending income and expense entries were recorded through October 2016.

(d) Investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for US government securities, the pools' fixed income instruments have credit risk as measured by Nationally Recognized Statistical Rating Organizations (NRSRO). Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate.

The US government guarantees US government securities directly or indirectly. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial institution must hold short-term and long-term credit ratings by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash

Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits at the custodial bank or sub-custodial bank, they are held in the name of BOI or its accounts. As of June 30, 2017, BOI recorded cash of \$2.0 million.

Investments

As of June 30, 2017, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for BOI and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. Concentration risk was within the policies as set by BOI.

CAPP

The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by BOI. BOI will formally affirm or revise the asset allocation ranges for the retirement plans annually. The CAPP IPS contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Within the objective and guidelines for each underlying asset class, limits are placed on the allowable types of investments and the allowable ranges.

TFIP

The TFIP IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency mortgage pass-through (MBS) securities.

STIP

The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution.

AOF

Concentration of credit risk is contemplated by investment staff for each portfolio. Exposure to individual securities are limited with the exception of debt obligations of the US government, including its agencies and instrumentalities.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. CAPP is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class, and High Yield Asset Class sections have maximum restrictions that can be held. As of June 30, 2017, there were no receivable or payable balances pertaining to foreign currency forward contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses effective duration as a measure of interest rate risk for all fixed income portfolios. BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the TIPS PAC, US Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage Backed PAC average duration will be maintained in a range within 20% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for AOF is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows. According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account.”

CAPP, TFIP, AOF, and STIP may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate (e.g. LIBOR).

CAPP, TFIP, and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2017. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. The Standard & Poor (S&P) rating service provides the credit ratings presented in the later tables. If an S&P rating is not available, an equivalent NRSRO rating is used.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2017. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services, are presented. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months or years) weighted to reflect the dollar size of the individual investments within an investment type. The WAM is calculated in days.

Other

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp remain in conservatorship from September 7, 2008.

In August 2011, S&P downgraded the US AAA bond rating to AA+.

Derivative Instruments

A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of CAPP derivative instruments outstanding as of June 30, 2017, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2017, are as follows (in thousands):

Investment Derivatives (1)	Classification	Fair Value at June 30, 2017		Change in Fair Value	
		Amount	Notional	Classification	Amount
Credit default swaps	Swaps	\$ -	\$ -	Investment Revenue	\$ 198
Currency forward contracts	LT debt/equity	-	-	Investment Revenue	7
Index futures long	Futures	-	3	Investment Revenue	892
Rights	Equity	31	39	Investment Revenue	62
Total Derivatives		<u>\$31</u>			<u>\$1,159</u>

- (1) A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. BOI was not subject to counterparty credit risk as of June 30, 2017.

STIP Reserve

In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to STIP participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. The STIP reserve for the year ending June 30, 2017, is detailed as follows:

STIP Reserve (in thousands)	
Beginning STIP Reserve	\$ 13,143
STIP reserve expense	
Other income	
Recovery from SIV related assets	7,774
Realized gains on sale of any STIP asset	19
Accrued interest	15
Daily reserve accrual	3,283
Total reserve expense	\$ 11,091
Ending STIP reserve	<u>\$ 24,234</u>

In the fiscal year ended June 30, 2007, BOI purchased four Structured Investment Vehicle (SIV) securities held in the STIP portfolio with a combined amortized cost of \$140.0 million, representing 5.02% of the total portfolio. These securities were purchased from two different issuers. Both issuers received the highest investment grade rating by two rating agencies at the time purchased and as of June 30, 2007. Both issuers of these SIV securities declared insolvency events in fiscal year 2008. In June and December 2009, BOI applied \$21.0 million, in total, from the STIP reserve to the outstanding debt principal balances. In May 2016, BOI wrote off the entire remaining outstanding SIV balance of \$23.6 million against STIP reserve. BOI does not make any assumptions on recovery related to the SIV assets. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve.

(2) The EDB deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The EDB's US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The EDB does not have a formal investment policy addressing credit risk for permitted investments as provided in the indenture or investment in the STIP. Permitted investments, as described in the indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

BOI's STIP investment policy statement specifies that STIP securities have a minimum of two credit ratings as provided by nationally recognized statistical rating organizations, to assist in the monitoring and management of credit risk. The purchase of STIP securities other than US government or US agency obligations are restricted to those which are pre-approved. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, it has not been rated.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial institution must hold short-term and long-term credit rating by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by US Bank's Trust Department in the name of BOI.

Investments - As of June 30, 2017, EDB securities were recorded in book entry form in the name of US Bank National Association as Trustee for BOI by specific account. The EDB does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. As of June 30, 2017, STIP concentration risk was within the policy as set by BOI.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The EDB does not have a formal investment policy addressing interest risk for permitted investments as provided in the Indenture or the cash equivalent investment in the STIP. STIP interest rate risk is determined using the WAM method. In accordance with GASB Statement No. 40, BOI has selected the effective duration method to disclose interest rate risk. According to the STIP IPS "the STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account."

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2017. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations. There were no derivative transactions during the 2017 fiscal year for investments held by the trustee.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$99,122
Uninsured and uncollateralized cash	5,599
Undeposited cash	444
Cash in US Treasury	295,621
Cash in MSU component units	10,963
Cash in UM component units	19,973
Less: outstanding warrants	(38,864)
	<u>\$392,858</u>

As of June 30, 2017, the carrying amount of deposits for component units was \$180.3 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer’s pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of BOI or other agencies, as allowed by law. The STIP portfolio is shown at fair value.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating(1)	WAM in Days(1)
Treasuries	\$ 194,673	A1+	80
Asset backed commercial paper	1,089,830	A1	25
Corporate commercial paper	356,122	A1	63
Corporate notes	369,751	A1+	78
Certificate of deposit	484,113	A1+	35
US government agency	419,778	A1+	24
Money market fund unrated	125,116	NR	1
Money market fund rated	148,000	A1+	1
Less: Cash in transit for STIP purchase	(9,031)	NR	NA
Less: STIP included in pooled investment balance	(157,132)	NR	NA
Total cash equivalents	<u>\$3,021,220</u>	A1	39

(1) Represents the STIP investments portion of cash equivalents only.

As of June 30, 2017, local governments had invested \$1.0 billion and component units of the State of Montana had invested \$427.7 million in STIP.

C. Equity in Pooled Investments

These securities consist of investments held by BOI in pooled investment funds. The Consolidated Asset Pension Pool (CAPP) and Trust Funds Investment Pool (TFIP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated “Prudent Expert Principle” (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	Book Value (1)	Fair Value (1)	Units Outstanding	Unit Value (2)
CAPP:				
Consolidated asset pension pool	\$ 9,665,249	\$10,667,096	\$103,214	\$103.058787
TFIP:				
Trust funds investment pool	2,217,207	2,327,039	21,812	107.016814
Total pooled investments	11,882,456	12,994,135		
Pool adjustments (net)	(22,728)	(22,728)		
Total equity in pooled investments	<u>\$11,859,728</u>	<u>\$12,971,407</u>		

(1) Includes cash/cash equivalents and investments.

(2) Amounts not in thousands.

As of June 30, 2017, the fair value of the underlying securities on loan was \$615.4 million. Collateral provided for the securities on loan totaled \$628.7 million consisting of \$80.6 million in cash and \$548.2 million in securities.

As of June 30, 2017, component units, both discretely presented and fiduciary funds, of the State had equity in pooled investments with a book value of \$10.4 billion and a fair value of \$10.7 billion as included in Table 3. The increase in book value was due to transitioning the plan participants out of the original five investment pools and into CAPP. As part of this transition, the investments were given a new book value which was their combined ending market value of their holdings of the five pools as of March 31, 2017.

As of June 30, 2017, local governments invested \$12.8 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2017, as required for applicable pools.

CAPP
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Treasuries	\$ 1,060,925	AA+	4.55
Agency/Government Related	125,562	AAA	5.01
Asset Backed Securities	41,968	AA+	2.20
Mortgage Backed Securities	458,851	AAA	4.09
Commercial Mortgage Backed Securities	87,168	AAA	3.76
Financial – Corporate	271,663	BBB+	3.71
Industrial – Corporate	478,729	BBB	4.45
Utility – Corporate	20,663	BBB	3.43
Short Term Investment Pool (STIP)	116,583	NR	0.11
State Street Short Term Investment Fund (STIF)	239,879	NR	0.07
Total fixed-income investments at fair value	<u>\$ 2,901,991</u>	AA-	3.99
<u>Other investments not requiring credit quality ratings</u>			
Montana Mortgages	4,935		
Domestic Equity Asset Class	3,884,160		
International Equity Asset Class	1,844,346		
Private Equity Asset Class	1,140,205		
Natural Resources Asset Class	221,211		
Real Estate Asset Class	823,538		
Other – Cash in Portfolios	68		
Less STIF in above Asset Classes	<u>(153,358)</u>		
Total investments not requiring credit quality ratings	<u>\$ 7,765,105</u>		
Total investments managed (2)	<u>\$10,667,096</u>		
Securities lending collateral investment pool	<u>\$62,235</u>	NR	0.02

(1) Credit Quality Rating and Effective Duration are weighted.

(2) Includes \$241.7 thousand of Cash and Cash Equivalents at cost.

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Treasuries	\$ 526,628	AA+	7.74
Agency/Government Related	153,351	AA+	6.24
Asset Backed Securities	76,743	AAA	1.88
Mortgage Backed Securities	439,241	AAA	4.45
Commercial Mortgage Backed Securities	130,417	AAA	4.95
Financial – Corporate	205,010	BBB+	4.54
Industrial – Corporate	419,642	A	6.25
Utility – Corporate	28,313	BBB	6.99
Short Term Investment Pool (STIP)	40,549	NR	0.11
High Yield Bond Fund	105,639	B+	3.69
Total fixed-income investments at fair value	<u>\$2,125,533</u>	AA-	5.82

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
<u>Other investments not requiring credit quality ratings</u>			
Core Real Estate	200,691		
Cash/Cash Equivalents (2)	814		
Total investments not requiring credit quality ratings	201,505		
Total investments managed	<u>\$2,327,038</u>		
Securities lending collateral investment pool	<u>\$ 18,321</u>	NR	0.02

- (1) Credit Quality Rating and Effective Duration are weighted.
(2) Reported at cost.

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	WAM in Days
Treasuries	\$ 124,774	A-1+	80
Asset Backed Commercial Paper	1,089,830	A-1	25
Corporate Commercial Paper	356,122	A-1	63
Corporate Notes	369,751	A-1+	78
Certificates of Deposit	484,113	A-1+	35
US Government Agency	389,807	A-1+	24
Money Market Funds (Unrated) (2)	24,219	NR	1
Money Market Funds (Rated) (2)	148,000	A-1+	1
Total investments managed	<u>\$2,986,616</u>	A-1	39

- (1) Credit Quality Rating is weighted.
(2) Reported at cost.

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – Fair Value Measurement and Application, as defined below. Each of the investment pools has the following recurring fair value measurements as of June 30, 2017.

CAPP Investments Measured at Fair Value
(in thousands)

	June 30, 2017	Fair Value Measurements Using		
		Quoted prices in	Significant Other	Significant
		Active Markets for	Observable Inputs	Unobservable
<u>Investments by fair value level</u>		Identical Assets	(Level 2)	(Level 3)
		(Level 1)		
Fixed income investments:				
Treasuries	\$ 1,060,925	\$1,060,925	\$ -	\$ -
Agency/Government Related	125,562	-	125,562	-
Asset Backed Securities	41,968	-	41,968	-
Mortgage Backed Securities	458,851	-	458,851	-
Commercial Mortgage Backed Securities	87,168	-	87,168	-

CAPP Investments Measured at Fair Value
(in thousands)

	June 30, 2017	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Financial-Corporate	271,663	-	271,663	-
Industrial-Corporate	478,729	-	478,729	-
Utility-Corporate	20,663	-	20,663	-
Equity investments:				
Consumer Discretionary	195,457	195,457	-	-
Consumer Staples	78,128	78,128	-	-
Energy	82,867	82,867	-	-
Financials	225,847	225,847	-	-
Health Care	184,845	184,845	-	-
Industrials	193,938	193,938	-	-
Information Technology	318,511	318,511	-	-
Materials	82,833	82,833	-	-
Mutual Funds	2,436,876	2,436,876	-	-
Real Estate	37,882	37,882	-	-
Telecommunication Services	13,736	13,736	-	-
Utilities	22,152	22,152	-	-
International equity investments:				
Consumer Discretionary	87,888	87,888	-	-
Consumer Staples	59,542	59,542	-	-
Energy	33,460	33,460	-	-
Financials	115,773	115,773	-	-
Health Care	48,134	48,134	-	-
Industrials	85,118	85,118	-	-
Information Technology	91,345	91,345	-	-
Materials	26,821	26,821	-	-
Mutual Funds	229,551	229,551	-	-
Private Placement	1,722	1,722	-	-
Real Estate	11,923	11,923	-	-
Rights/Warrants	31	31	-	-
Telecommunication Services	10,695	10,695	-	-
Utilities	4,128	4,128	-	-
Direct Real Estate	18,723	-	-	18,723
Montana Mortgages	4,935	-	-	4,935
Total fixed income investments	<u>\$ 7,248,390</u>	<u>\$5,740,128</u>	<u>\$1,484,604</u>	<u>\$23,658</u>
<u>Investments measured at the net asset value (NAV)</u>				
Commingled Equity Index Funds	\$ 1,009,736			
Private Equity – Private Equity Partnerships	1,209,376			
Core Real Estate	341,077			
Opportunistic	92,882			
Timber	104,714			
Value Added	302,629			
Short Term Investment Pool (STIP)	116,583			
Total investments measured at NAV	<u>3,176,997</u>			
Total investments at fair value	<u>\$10,425,387</u>			
<u>Investments measured at cost</u>				
Cash/Cash Equivalents	241,709			
Total investments managed	<u>\$10,667,096</u>			

TFIP Investments Measured at Fair Value
(in thousands)

	Fair Value Measurements Using			
	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)	
June 30, 2017				
<u>Investments by fair value level</u>				
Fixed income investments:				
Treasuries	\$ 526,628	\$526,628	\$ -	\$ -
Agency/Government Related	153,351	-	153,351	-
Asset Backed Securities	76,743	-	76,743	-
Mortgage Backed Securities	439,241	-	439,241	-
Commercial Mortgage Backed Securities	130,417	-	130,417	-
Financial-Corporate	205,010	-	205,010	-
Industrial-Corporate	419,642	-	419,642	-
Utility-Corporate	28,313	-	28,313	-
Total fixed income investments	\$1,979,345	\$526,628	\$1,452,717	\$ -
<u>Investments measured at the net asset value (NAV)</u>				
Core Real Estate	200,691			
High Yield Bond Fund	105,639			
Short Term Investment Pool (STIP)	40,549			
Total investments measured at NAV	346,879			
Total investments at fair value	\$2,326,224			
<u>Investments measured at cost</u>				
Cash/Cash Equivalents	814			
Total investments managed	\$2,327,038			

STIP Investments Measured at Fair Value
(in thousands)

	Fair Value Measurements Using			
	June 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by fair value level</u>				
Fixed income investments:				
Treasuries	\$ 124,774	\$124,774	\$ -	\$ -
Asset Backed Commercial Paper	1,089,830	-	1,089,830	-
Corporate Commercial Paper	356,122	-	356,122	-
Corporate Notes	369,751	-	369,751	-
Certificates of Deposit	484,113	-	484,113	-
US Government Agency	389,807	-	389,807	-
Total investments by fair value level (1)	\$2,814,397	\$124,774	\$2,689,623	\$ -
<u>Investments measured at cost</u>				
Money Market Funds (Unrated)	24,219			
Money Market Funds (Rated)	148,000			
Total investments measured at cost	172,219			
Total investments managed	\$2,986,616			

(1) STIP is reported in Table 2 – Cash Equivalents

AOF data is presented below and in section D – Investments.

CAPP, STIP and AOF – Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

CAPP – Montana Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy for the fiscal year ended June 30, 2017.

Pools and AOF – Investments measured at cost are included to account for all investments within each pool and AOF. These assets represent cash equivalents and Montana Mortgages.

The investments measured at NAV for the year ended June 30, 2017 are detailed below.

	Fair Value	Investments Measured at NAV (in thousands)		
		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
CAPP				
Commingled Equity Index Funds	\$1,009,736	-	Daily	1 day
Private Equity – Private Equity Partnerships	1,209,376	\$735,280		
Core Real Estate	341,077	-	Monthly, quarterly	45-90 days
Opportunistic	92,882	54,963		
Timber	104,714	30,670		
Value Added	302,629	102,272		
Short Term Investment Pool (STIP)	116,583	-	Daily	1 day
Total investments measured at the NAV	<u>\$3,176,997</u>	<u>\$923,185</u>		
TFIP				
Core Real Estate	\$200,691	-	Monthly, quarterly	45-90 days
High Yield Bond Fund	105,639	-	Monthly	30 days
Short Term Investment Pool (STIP)	40,549	-	Daily	1 day
Total investments measured at NAV	<u>\$346,879</u>	-		
AOF				
Core Real Estate	\$107,000	-	Monthly, quarterly	45-90 days
Commingled Equity Index Funds	185,615	-	Daily	1 day
Total investments measured at NAV	<u>\$292,615</u>	-		

Commingled Equity Index Funds – This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

Private Equity Partnerships – This type includes investments in limited partnerships. Generally, the types of partnership strategies included in this portfolio are: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of BOI's ownership interest in partners' capital.

Core Real Estate – This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel) through commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Value Added and Opportunistic – This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds in order to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Timber – This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 12 to 20 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

STIP – This investment program is managed and administered under the direction of BOI as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment. STIP, as presented in this table, represents a direct holding for CAPP and TFIP. Refer to the STIP Investments Measured at Fair Value table for the underlying investments within the fair value hierarchy.

High Yield Bond Fund – This type consists of predominantly US corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

As of the June 30, 2017, exchange date, BOI's foreign currency exposure by deposits and investment type are reported, in US dollars, at fair value in the table below. Excluded are the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Australian Dollar	\$ 1	\$ 18,122	\$ -	\$ -
Brazilian Real	39	14,682	-	-
Canadian Dollar	54	38,382	-	-
Danish Krone	1	11,684	-	-
EMU – Euro	37	117,307	26,700	4,513
Hong Kong Dollar	6	23,646	-	-
Indonesian Rupiah	2	551	-	-
Japanese Yen	289	81,919	-	-
Malaysian Ringgit	28	1,720	-	-
Mexican Peso	-	1,256	-	-
New Zealand Dollar	2	831	-	-
New Israeli Sheqel	19	3,896	-	-
Norwegian Krone	7	7,503	-	-
Philippine Peso	12	1,504	-	-
Polish Zloty	21	2,625	-	-
Singapore Dollar	21	8,014	-	-
South African Rand	30	10,892	-	-
South Korean Won	69	21,941	-	-
Swedish Krona	5	21,275	-	-

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Swiss Franc	1	27,137	-	-
New Taiwan Dollar	-	12,359	-	-
Thailand Baht	3	5,168	-	-
Turkish Lira	14	8,632	-	-
UK Pound Sterling	134	75,014	-	-
Yuan Renminbi	-	2,508	-	-
Total cash and securities	\$795	\$518,568	\$26,700	\$4,513

Investments in alternative equity are usually made through Limited Partnership Agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to CAPP alternative equity managers by pension class. Further details on the balances as of June 30, 2017, as shown below, can be found in BOI's separately issued external investment pool financial statements.

Commitments to Fund Managers
(in thousands)

Pool	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
Private Equity PAC	\$2,185,722	\$671,170	\$ 891,879	\$ 986,638
Real Estate PAC	668,666	157,235	290,610	309,092
Natural Resource PAC	325,000	94,780	180,098	213,117
Total	\$3,179,388	\$923,185	\$1,362,587	\$1,508,847

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes BOI to manage the State's Unified Investment Program. Long-term investments are administered by the following agencies, as allowed by state law, Section 17-6-201, MCA:

Long-term Investments	
Department	Percent Administered
Board of Investments	52.56%
Universities	16.94
MPERA (Montana Public Employee Retirement Administration)	20.76
College Savings Plan	4.43
Montana Board of Housing	2.53
Other (1)	2.78
Total	100.00%

- (1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Commerce, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, the Department of Revenue, and State Auditor.

BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to BOI's custodial bank or trustee. State investments are categorized within the fair value hierarchy established by GASB Statement No. 72.

The PERS Defined Contribution Retirement Plan and the Deferred Compensation Plan's fixed assets were administered on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). The third party record keeper, Empower™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a fixed rate of return. All money invested in the Montana Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any GIC. Variable investments are held and managed in a selection of retail and institutional mutual funds, which cover all standard asset classes and categories.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
<u>Investments by fair value level</u>				
Treasuries (1)	\$ 31,025	\$ 31,025	\$ -	\$ -
Agency/Government Related (1)	54,900	-	54,900	-
Asset Backed Securities (1)	500	-	500	-
Financial-Corporate (1)	6,820	-	6,820	-
Industrial-Corporate (1)	4,752	-	4,752	-
Government Securities	12,661	8,100	4,561	-
Stocks	6,515	6,515	-	-
Other	53,250	-	53,250	-
Total investments at fair value	\$ 170,423	\$ 45,640	\$ 124,783	\$ -
<u>Investments at cost</u>				
Montana Mortgages and Loans (3)	\$ 148,403			
Total investments at cost	\$ 148,403			
Total primary government	\$ 318,826			
Component units/fiduciary funds				
<u>Investments by fair value level</u>				
Treasuries (1)	\$ 221,691	\$ 221,691	\$ -	\$ -
Agency/Government Related (1)	251,106	-	251,106	-
Asset Backed Securities (1)	54,462	-	54,462	-
Mortgage Backed Securities (1)	15,900	-	15,900	-
Commercial Mortgage Backed Securities (1)	15,204	-	15,204	-
Financial-Corporate (1)	301,108	-	301,108	-
Industrial-Corporate (1)	314,940	-	314,940	-
Utility-Corporate (1)	32,626	-	32,626	-
529 College Savings Plan	143,507	-	143,507	-
VEBA	5,971	-	5,971	-
State Auditor	11,437	-	11,437	-
MSU Component Unit Investments (2)	217,707	122,131	2,767	92,809
UM Component Unit Investments (2)	189,381	117,767	55,681	15,933
Board of Housing (2)	55,027	16,516	38,511	-
Total investments at fair value	\$1,830,067	\$ 478,105	\$1,243,220	\$ 108,742
<u>Investments at net asset value (NAV)</u>				
Core Real Estate	\$ 107,000			
Commingled Equity Index Funds	185,615			
Deferred Compensation (2)	479,575			
Defined Contribution (2)	192,153			
UM Component Unit Investments (2)	81,578			
Total investments at NAV	\$1,045,921			

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments at cost</u>				
MSU Component Unit Investments (2)	\$ 59,686			
Board of Housing (2)	26,806			
Total Investments at Cost	\$ 86,492			
Total component unit/fiduciary investments	\$2,962,480			
Total investments	\$3,281,306			
Securities lending investment pool	\$ 39,256			

(1) The credit quality rating and duration are included below for the rated investments.

(2) For more detail, refer to component unit separately issued financial statements.

(3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included on AOF financial statements. This amount of \$11.9 million is considered advances to other funds/component units and amounts due from component units in the Coal Tax Severance column of the governmental fund financial statements.

As of June 30, 2017, the fair value of the investments on loan was \$143.3 million. Collateral provided for the investments on loan totaled \$146.3 million consisting of \$39.3 million in cash and \$107.0 million in securities.

All Other Funds – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Security Investment Type (2)			
Treasuries	\$ 322,615	AA+	3.72
Agency/Government Related	335,978	AAA	3.21
Asset Backed Securities	54,962	AAA	1.87
Mortgage Backed Securities	15,900	AAA	6.62
Commercial Mortgage Backed Securities	15,204	AAA	5.11
Financial – Corporate	307,928	A-	2.80
Industrial – Corporate	319,693	A	4.47
Utility – Corporate	32,626	BBB+	2.90
Total fixed income investments	\$1,404,906	AA-	3.52
Direct Investments			
Equity Index Fund – Domestic	\$ 146,666		
Equity Index Fund – International	37,766		
Equity Index Fund – US Debt	1,183		
Total Equity Index Funds	\$ 185,615		
Core Real Estate	107,000		
Montana Mortgages and Loans (3)	160,623		
Total direct investments	\$453,238		
Total investments	\$1,858,144		
Securities lending collateral investment pool	\$ 39,256	NR	0.02

(1) Credit Quality Rating and Effective Duration are weighted.

(2) These rated securities are reported on both Table 2–Cash Equivalents and Table 4–Investments.

(3) Reported at cost.

EDB – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
First American Government Obligation Fund (2) (3)	\$ 755	AAA	0.09
US Treasuries (2)	5,862	AAA	0.07
Short Term Investment Pool (STIP) (2)	63	NR	0.11
US Government Indirect Obligations	11,628	AAA	0.75
Total investments	<u>\$18,308</u>	<u>AAA</u>	<u>0.50</u>

- (1) Credit Quality Rating and Effective Duration are weighted.
(2) Security types are cash equivalents.
(3) Reported at cost.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2017, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	\$ -	\$ 7,242	\$ 30	\$ 849	\$ 4,683	\$ 451	\$ 8,132
Contributions/premiums	-	-	-	4,773	-	-	8,501
Grants/contracts/donations	-	2	-	-	-	-	223
Investment income	3,018	-	614	168	1,756	3,948	3,112
License and permits	-	-	4	-	-	-	8,378
Other receivables	-	33,190	7,942	-	-	-	113
Reimbursements/overpayments	-	762	12,500	-	-	-	14,156
Taxes	5,101	-	353,985	-	-	1,900	62,880
Total receivables	8,119	41,196	375,075	5,790	6,439	6,299	105,495
Less: allowance for doubtful accounts	-	(1,949)	(128,102)	(18)	-	-	(20,363)
Receivables, net	\$8,119	\$39,247	\$246,973	\$5,772	\$6,439	\$6,299	\$85,132

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	\$ -	\$ 27,430	\$ -
Contributions/premiums	-	137	6,130
Loans/investment income	12,880	108	-
Other receivables	-	82	-
Reimbursements/overpayments	-	-	1,672
Total receivables	12,880	27,757	7,802
Less: allowance for doubtful accounts	-	(416)	(3,300)
Receivables, net	\$ 12,880	\$ 27,341	\$ 4,502

B. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued Interest	\$ 5	\$ 354	\$ 61	\$2,537	\$ 52
Payroll	8,203	22,489	3,696	38	20,403
Tax refunds	-	157,421	-	-	-
Vendors/individual	337,605	76,518	15,415	3,263	112,772
Payables, net	<u>\$345,813</u>	<u>\$256,782</u>	<u>\$19,172</u>	<u>\$5,838</u>	<u>\$133,227</u>

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued Interest	\$432	\$ 4	\$ -
Payroll	23	989	-
Vendors/individuals	2	15,046	2,299
Payables, net	<u>\$457</u>	<u>\$16,039</u>	<u>\$2,299</u>

C. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred outflows (1)	\$18	\$329,358	\$9,088	\$ -	\$70
Refunding deferred outflows	-	-	-	3,836	-
Total deferred outflows	<u>\$18</u>	<u>\$329,358</u>	<u>\$9,088</u>	<u>\$3,836</u>	<u>\$70</u>

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Pension deferred outflows (1)	\$65	\$3,055
Total deferred outflows	<u>\$65</u>	<u>\$3,055</u>

(1) Further detail regarding pension related deferred outflows of resources is provided in Note 6.

D. Deferred Inflows of Resources

	Governmental Activities			
	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred inflows (1)	\$54,005	\$573	\$ -	\$24
Refunding deferred inflows	-	-	834	-
Total deferred inflows	<u>\$54,005</u>	<u>\$573</u>	<u>\$ 834</u>	<u>\$24</u>

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Other deferred inflows	\$ -	\$ 1
Pension deferred inflows (1)	1	227
Total deferred inflows	\$ 1	\$228

(1) Further detail regarding pension related deferred inflows of resources is provided in Note 6.

NOTE 5. CAPITAL ASSETS

On August 15, 2016, the Land Board approved, by vote of 5-0, a like-kind property exchange. Through the Department of Administration, the State acquired the land and existing building at 1698 A Street as part of a three-parcel land and building exchange between the State and a non-governmental entity. All three properties are located in Helena. The state-owned assets located at 1100 North Last Chance Gulch and 920 Front Street were exchanged for the 1698 A Street Property. This exchange removed two obsolete and costly buildings from the State's portfolio and replaced them with one updated building. The assets are accounted for in a governmental fund.

Changes in capital asset balances for the fiscal year ended June 30, 2017, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 670,784	\$ 24,036	\$ (784)	\$ 694,036
Construction work in progress	941,329	750,920	(856,258)	835,991
Easements	167,599	13,418	-	181,017
Museum and art	65,498	34,325	-	99,823
Other	12,452	1,195	-	13,647
Total capital assets not being depreciated	1,857,662	823,894	(857,042)	1,824,514
Capital assets being depreciated:				
Infrastructure	5,008,793	428,542	(163,756)	5,273,579
Land improvements	60,543	1,806	(77)	62,272
Buildings/improvements	587,216	19,993	(6,270)	600,939
Equipment	366,149	35,681	(22,812)	379,018
Easements - amortized	1,596	-	(73)	1,523
Other	6,950	247	-	7,197
Total capital assets being depreciated	6,031,247	486,269	(192,988)	6,324,528
Less accumulated depreciation for:				
Infrastructure	(1,547,395)	(164,766)	165,663	(1,546,498)
Land improvements	(24,935)	(2,732)	44	(27,623)
Buildings/improvements	(357,553)	(24,007)	6,960	(374,600)
Equipment	(237,532)	(16,851)	15,058	(239,325)
Other	(5,573)	(252)	-	(5,825)
Total accumulated depreciation	(2,172,988)	(208,608)	187,725	(2,193,871)
Total capital assets being depreciated, net	3,858,259	277,661	(5,263)	4,130,657
Intangible assets	37,700	13,662	(14,569)	36,793
Governmental activities capital assets, net	\$5,753,621	\$1,115,217	\$(876,874)	\$5,991,964

(1) The increases and decreases noted above include adjustments related to prior periods and correction of errors.

Business-type Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	3,090	5,896	(4,371)	4,615
Other	4,293	28	(12)	4,309
Total capital assets not being depreciated	8,183	5,924	(4,383)	9,724
Capital assets being depreciated:				
Infrastructure	1,170	224	(219)	1,175
Land improvements	3,830	-	-	3,830
Buildings/improvements	7,594	4,426	(1,897)	10,123
Equipment	9,538	241	(404)	9,375
Total capital assets being depreciated	22,132	4,891	(2,520)	24,503
Less accumulated depreciation for:				
Infrastructure	(694)	(14)	-	(708)
Land improvements	(1,617)	(149)	-	(1,766)
Buildings/improvements	(5,802)	(569)	186	(6,185)
Equipment	(6,155)	(336)	129	(6,362)
Total accumulated depreciation	(14,268)	(1,068)	315	(15,021)
Total capital assets being depreciated, net	7,864	3,823	(2,205)	9,482
Intangible assets	316	-	(122)	194
Business-type activities capital assets, net	\$16,363	\$9,747	\$(6,710)	\$19,400

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Depreciation (2)
General government	\$ 8,986
Public safety	8,103
Transportation, including depreciation of the highway system maintained by the State	166,109
Health and human services	2,497
Education	340
Natural resources, including depreciation of the state's dams	11,094
Depreciation on capital assets held by the internal service funds	11,479
Total depreciation expense – Governmental Activities	\$208,608

Depreciation expense was charged to business-type activities as follows (in thousands):

	Depreciation (2)
Liquor Stores	\$ 165
State Lottery	47
Prison Funds	602
West Yellowstone Airport	199
Other Enterprise Funds	55
Total depreciation expense – Business-type Activities	\$1,068

(2) Depreciation expenses noted above include adjustments related to prior periods and correction of errors.

NOTE 6. RETIREMENT PLANS

A. General

The funding policies for each plan provide for periodic employee, employer, and State of Montana (State) nonemployer contributions at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls. Benefits are established by state law and can only be amended by the Legislature.

Montana State Fund, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for some pension related items.

Public Employees' Retirement Board

The Public Employees' Retirement Board (PERB) oversees eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Sheriffs' Retirement System (SRS); Game Wardens' and Peace Officers' Retirement System (GWPORS); Municipal Police Officers' Retirement System (MPORS); Firefighters' Unified Retirement System (FURS); and Volunteer Firefighters' Compensation Act (VFCA). The PERB also oversees two defined contribution plans: Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the 457-Deferred Compensation Plan (457 Plan). All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be attained here: <http://mpera.mt.gov/>. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

The PERB is an independent, seven-member board, appointed by the Governor. The members are assigned five-year, staggered terms. The PERB consists of two members at large, two active defined benefit public employees, one active defined contribution public employee, one member experienced in investments, and one retired public employee. The PERB approves the annual operating budget, developed by MPERA management, before the beginning of the fiscal year. As governed by statute, the PERB's defined benefit administrative expenses may not exceed 1.5% of the total defined benefit plan retirement benefits paid. In addition, the PERB decides legislative policy and priorities, hires the executive director, establishes the policies and procedures that govern operations at MPERA, and hear and rule on appeal matters of disabilities, retirees, and members. PERB members do not receive compensation for their service to the MPERA, but are reimbursed for necessary expenses incurred while serving.

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability OPEB Plan provides a defined benefit for disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6. Related disclosures for the PERS-DCRP Disability Plan can be found within Note 7 of this report.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and

experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at <https://trs.mt.gov/>.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB members are appointed from the public at large. TRB members serve staggered five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2017, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	539	300	57	33	27	244	369
Nonemployer contributing entity	-	1	-	-	1	1	1	1
Total Participants	7	540	300	57	34	28	245	370

There are approximately 700 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position, the items have been determined on the same accrual basis as they are reported by the MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

The TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS, and additions to/deductions from TRS's fiduciary net position, the items have been determined on the same accrual basis as they are reported by the TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The TRS adheres to all applicable GASB statements.

The pension trust fund financial statements presented in this report are prepared using the accrual basis of accounting in the same manner as that described for the pension plan administrators above.

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2017, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	JRS	HPORS ¹	GWPORS	PERS-DBRP ²	SRS	MPORS ¹	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	56	238	1,012	29,395	1,415	775	678	1,957	18,917	2,541	4,898
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	16	114	3,677	108	75	39	824	1,779	475	4,341
Nonvested	1	17	304	16,659	465	143	54	-	13,712	653	-
Inactive members and beneficiaries currently receiving benefits:											
Service retirements ³	62	313	262	21,181	595	731	604	1,435	13,630	58	-
Disability retirements	1	6	3	161	29	30	6	1	203	3	-
Survivor benefits ⁴	5	12	11	463	24	30	20	2	1,733	3	-
Total Membership	127	602	1,706	71,536	2,636	1,784	1,401	4,219	49,974	3,733	9,239

¹Includes DROP in the Active count.

²The Inactive Nonvested count includes dormant accounts that were previously not counted.

³Includes "Alternate Payees" and "Death After Retirement" benefit payments.

⁴Includes "Death Before Retirement" benefit payments.

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2017, based on a June 30, 2016, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	\$ 53,953	\$ 87,805	\$ (33,852)	\$ (2,114)	\$ 4,607	\$ 1,522
HPORS	200,752	128,973	71,779	6,987	9,938	-
GWPORS	187,534	154,685	32,850	5,890	12,446	177
PERS-DBRP	3,586,402	2,679,522	906,880	79,198	160,734	18,642
SRS	25,899	16,317	9,582	1,214	5,072	1,638
FURS	10,535	7,952	2,583	419	1,046	24
TRS	171,146	114,130	57,016	10,530	33,941	1,652
Totals	\$4,236,221	\$3,189,384	\$1,046,838	\$102,124	\$227,784	\$23,655

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's current salary¹ or highest average compensation (HAC)²

¹Hired prior to July 1, 1997, and non-Guaranteed Annual Benefit Adjustment (GABA) – monthly compensation at time of retirement;

²Hired on or after July 1, 1997, or electing GABA – HAC during any consecutive 36 months;

²Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Age 60, 5 years of membership service;

Any age with 5 years of membership service – involuntary termination, actuarially reduced.

Vesting

5 years of membership service.

Monthly benefit formula

3⅓% of current salary¹ (non-GABA) or HAC² (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)

If hired prior to July 1, 1997, and member did not elect GABA – current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Plan members are required to contribute 7.0% of the member's monthly compensation.

Employer contributions to the system – As the employer, the State is required to contribute 25.81% of a member's compensation.

Actuarial Assumptions

The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.15%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases None

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
 - 3% for members electing GABA or hired on or after July 1, 1997
 - Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension asset was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the JRS's target asset allocation as of June 30, 2016, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of 7.75%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	(in thousands) Current Discount Rate	1.0% Increase (8.75%)
JRS Net Pension (Asset)	(\$29,753)	(\$33,852)	(\$39,015)

Net Pension Asset

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the JRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension asset (NPA), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability (Asset) as of 6/30/15	Net Pension Liability (Asset) as of 6/30/16	Percent of Collective NPA
Employer's Proportionate Share	(\$33,961)	(\$33,852)	100%

At June 30, 2017, the employer reported a net pension asset of \$33.9 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the JRS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension asset and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension asset.

Other Items Related to and Changes in Net Pension Asset

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2015	\$53,146	\$87,107	(\$33,961)
Service Costs	1,578	-	1,578
Interest	3,986	-	3,986
Difference between Expected and Actual Experience	(1,341)	-	(1,341)
Contributions – employer	-	1,806	(1,806)
Contributions – member	-	729	(729)
Net Investment Income	-	1,779	(1,779)
Benefit Payments	(3,416)	(3,416)	-
Administrative Expense	-	(197)	197
Other Changes	-	(3)	3
Net Changes	807	698	109
Balances at 6/30/2016	\$53,953	\$87,805	(\$33,852)

Pension Expense

At June 30, 2017, the employer recognized pension expense/(income) of (\$2.1) million for the JRS.

Deferred Outflows and Inflows

At June 30, 2017, the employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$1.8 million.

As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	\$1,522
Earnings on pension plan investments	\$2,807	-
Contributions paid to JRS subsequent to the measurement date – FY 2017 Contributions	1,800	-
Totals	\$4,607	\$1,522

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$(441)
2019	(441)
2020	1,181
2021	986
2022	-
Thereafter	-

Highway Patrol Officers' Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established in July 1, 1945, and governed by Title 19, chapters 2 & 6, MCA. This plan provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their statutory beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other member rights are vested after 5 or 10 years of service.

Section 19-6-709, MCA provides eligible members retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the General Fund. Factors impacting eligibility include the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19, MCA.

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP

account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2017, was approximately \$680.0 thousand.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2013 – HAC during any consecutive 36 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.

Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Vesting

Hired prior to July 1, 2013 – 5 years of membership service.

Hired on or after July 1, 2013 – 10 years of membership service.

Monthly benefit formula

Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.

Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 – after the member has completed 36 full months of retirement, the member's benefit increase by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

Minimum Monthly Benefit (non-GABA)

If hired prior to July 1, 1997, and member did not elect GABA – the minimum monthly benefit is equal to 2% of the service credit multiplied by the current base compensation of a probationary highway patrol officer. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.

Hired prior to July 1, 1997, and not electing GABA – Plan members are required to contribute 13.00%.

Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 13.05%.

Effective July 1, 2013, and ending July 1, 2016, all HPORS member contributions, regardless of hired date, increased 1.0% annually.

Employer contributions to the system – As the employer, the State is required to contribute 38.33% of a member's compensation. The first 28.15% is payable from the same sources used to pay a member's compensation. The remaining amount, equal to 10.18%, is payable from the General Fund through a statutory appropriation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.23%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage each January, inclusive of other adjustments to the member’s benefit:
 - If electing GABA or hired on or after July 1, 1997 – 3.00%
 - Hired on or after July 1, 2013 – 1.50%
 - Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the HPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the HPORS’s target asset allocation as of June 30, 2016, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	(in thousands) Current Discount Rate	1.0% Increase (8.75%)
HPORS Net Pension Liability	\$99,166	\$71,779	\$50,127

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the HPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows or resources, and deferred outflows of resources associated with pensions.

	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
Employer's Proportionate Share	\$63,899	\$71,779	100%

At June 30, 2017, the employer reported a liability of \$71.8 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the HPORS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: Effective October 1, 2015, a member who retires with at least 20 years of service will be allowed to participate in the Deferred Retirement Option Program (DROP). While the member is participating in the DROP, they will continue to work while accumulating their retirement benefit with interest. The interest rate that the balance is accumulated at is the assumed rate of return which is 7.75% per year. Once the member terminates from active service they will begin to receive their monthly pension in addition to the accumulated DROP account. The maximum period a member can participate in the DROP is 60 months.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

	Total Pension Liability	(in thousands) Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2015	\$192,966	\$129,067	\$63,899
Service Costs	3,799	-	3,799
Interest	14,545	-	14,545

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Difference Expected and Actual Experience	18	-	18
Contributions – employer	-	5,916	(5,916)
Contributions – non-employer	-	243	(243)
Contributions – member	-	1,917	(1,917)
Net Investment Income	-	2,605	(2,605)
Refund of Contributions	(94)	(94)	-
Benefit Payments	(10,482)	(10,482)	-
Administrative Expense	-	(197)	197
Other Changes	-	(2)	2
Net Changes	7,786	(94)	7,880
Balances at 6/30/2016	\$200,752	\$128,973	\$71,779

Pension Expense

At June 30, 2017, the employer recognized pension expense of \$7.0 million for the HPORS.

Deferred Outflows and Inflows

At June 30, 2017, the employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$6.1 million.

As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources related to the HPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 147	-
Difference between projected and actual earnings on pension plan investments	4,084	-
Contributions paid to HPORS subsequent to the measurement date – FY 2017 Contributions	5,707	-
Totals	\$9,938	-

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2018	\$	262
2019		262
2020		2,249
2021		1,458
2022		-
Thereafter		-

Game Wardens' & Peace Officers' Retirement System – The GWPORS, administered by the MPERA, is a multi-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

The State of Montana and its discretely presented component units are the only employers who participate in the GWPORS. Therefore, while the plan is considered to be a multi-employer, cost-sharing defined benefit plan for actuarial valuation purposes, in accordance with GASB 68, the plan is treated as if it were a single-employer defined benefit pension plan type for financial reporting.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service Retirement

Age 50, 20 years of membership service.

Early Retirement (reduced benefit)

Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting

5 years of membership service.

Monthly benefit formula

2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 10.56% of member's compensation.

Employer contributions to the system – State agency and university employers are required to contribute 9.0% of a member's compensation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study,

dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage each January, inclusive of other adjustments to the member’s benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS’s target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well

as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Primary Government GWPORS Net Pension Liability	\$57,479	\$31,055	\$9,089
Discretely Presented Component Units GWPORS Net Pension Liability	3,322	1,795	525
Total Employer GWPORS Net Pension Liability	\$60,801	\$32,850	\$9,614

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the GWPORS. Statement 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
Primary Government Employer Proportionate Share	\$19,849	\$31,055	94.536685%
Discretely Presented Component Unit Share	1,162	1,795	5.463315%
Total Employer GWPORS Proportionate Share	\$21,011	32,850	100%

At June 30, 2017, the employer reported a total liability of \$32.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of GWPORS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms:

2015 Legislative Changes

- If a PERS member transfers employment to a GWPORS covered position and fails to elect GWPORS membership within 90 days, the default is PERS membership
- If a GWPORS member dies before retirement with more than 25 years of service credit, the survivor benefit is 2.5% of the highest average compensation.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

The State, as the primary government employer, has the following balances and changes related to the GWPORS's Net Pension Liability:

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2015	\$160,039	\$140,211	\$19,828
Service Costs	7,944	-	7,944
Interest	12,205	-	12,205

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Difference between Expected and Actual Experience	2,557	-	2,557
Contributions – employer	-	4,045	(4,045)
Contributions – member	-	4,760	(4,760)
Net Investment Income	-	2,994	(2,994)
Benefit Payments	(4,791)	(4,791)	-
Administrative Expense	-	(255)	255
Refunds of Contributions	(1,007)	(1,007)	-
Other	-	(29)	29
Net Changes	16,908	5,717	11,191
Balances at 6/30/2016	\$176,947	\$145,928	\$31,019

The State's discretely presented component units, as employers, have the following balances and changes related to the GWPORS's Net Pension Liability:

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2015	\$ 9,610	\$8,427	\$1,183
Service Costs	459	-	459
Interest	705	-	705
Difference between Expected and Actual Experience	148	-	148
Contributions - employer	-	234	(234)
Contributions - member	-	275	(275)
Net Investment Income	-	173	(173)
Benefit Payments	(277)	(277)	-
Administrative Expense	-	(15)	15
Refunds of Contributions	(58)	(58)	-
Other	-	(2)	2
Net Changes	977	330	647
Balances at 6/30/2016	\$10,587	\$8,757	\$1,830

Pension Expense

At June 30, 2017, the employer recognized a total pension expense of \$5.9 million for its proportionate share of the GWPORS pension expense: \$5.6 million related to the primary government and \$314.1 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2017, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$4.0 million. As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,625	-
Difference between projected and actual earnings on pension plan investments	4,770	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	159	\$120

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid to GWPORS subsequent to the measurement date – FY 2017 Contributions	4,216	-
Totals	\$11,770	\$120

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$ 889
2019	889
2020	2,966
2021	2,125
2022	526
Thereafter	-

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$231.6 thousand.

As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$152	-
Difference between projected and actual earnings on pension plan investments	276	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	18	\$57
Contributions paid to GWPORS subsequent to the measurement date – FY 2017 Contributions	230	-
Totals	\$676	\$57

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$ 51
2019	51
2020	171
2021	124

<i>(in thousands)</i>	
Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
Year ended June 30:	
2022	31
Thereafter	-

(2) State as an Employer and/or a Nonemployer Contributing Entity to Cost-Sharing Multiple-Employer Plans

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, MCA. This plan covers employees of the State and local governments, and certain employees of the Montana University System and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System-Retirement Program (MUS-RP).

Effective July 1, 2013, PERS-DBRP received other contributions including 1% employer contributions for DCRP and MUS-RP participants and additional Plan Choice Rate contributions. As per the law of the 2015 Legislative Session and effective July 1, 2015, with the first fiscal year 2016 payroll pay date, the additional 1% employer contribution was directed to the Plan Choice Rate Unfunded Actuarial Liability rather than the Defined Benefit Unfunded Actuarial Liability. As of March 2016, the Plan Choice Rate Unfunded Actuarial Liability was paid in full and the additional employer contribution is now being directed to defined contribution members' accounts.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011 –

Age 60, 5 years of membership service;

Age 65, regardless of membership service; or

Any age, 30 years of membership service.

Hired on or after July 1, 2011 –

Age 65, 5 years of membership service;

Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 –

Age 50, 5 years of membership service; or

Any age, 25 years of membership service.

Hired on or after July 1, 2011 – Age 55, 5 years of membership service.

Second retirement (all require retuning to PERS-covered employment or PERS service):

Retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit:

- A refund of member's contributions from second employment plus regular interest (.25%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on laws in effect at second retirement; and
- GABA starts the January after receiving recalculated benefit for 12 months

Retire on or after January 1, 2016 and accumulate 5 or more years of additional service credit:

- The same retirement benefit as prior to their return to service;
- A second retirement benefit for second period of service based on laws in effect at second retirement;
- GABA starts on both benefits in the January after receiving the original and new benefit for 12 months

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011 –

Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 –

Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA) – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Contributions are deducted from each member's salary and remitted by participating Employers. Plan members are required to contribute 7.90% of member's compensation. The 7.90% member contribution rate is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional Employer and additional member contribution rates.

Employer contributions to the system

State and University System employers are required to contribute 8.47% of member compensation.

Local government entities are required to contribution 8.37% of member compensation.

School district employers contributed 8.10% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. On January 1, 2018, the additional contributions will not be terminated.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non-Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.

The State contributes 0.37% of member compensation on behalf of school district entities.

Not Special Funding

The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with Section 15-35-108, MCA.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.27%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 6.00%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member's benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.50% for each year PERS is funded at or above 90%
 - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS-DBRP's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	(in thousands) Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in PERS-DBRP – Net Pension Liability	1,315,950	\$906,880	\$554,507
State as a Nonemployer Contributing Entity to PERS-DBRP – Net Pension Liability	23,633	16,287	9,959

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net

pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

In accordance with GASB 68, the PERS-DBRP has a special funding situation where the State is legally responsible for making contributions directly to the PERS-DBRP on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

The State also has a funding situation that is not considered a special funding situation whereby the General Fund provides contributions received from the Coal Severance Tax collections and interest accrued on the Coal Tax Permanent Trust Fund. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as a grant revenue.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	\$749,414	\$906,880	53.241100%
State's Proportionate Share as a Nonemployer Contributing Entity	13,365	16,287	0.956169%
State of Montana Totals	<u>\$762,779</u>	<u>\$923,167</u>	<u>54.197269%</u>

At June 30, 2017, the State reported a liability of \$923.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2015, through June 30, 2016, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

At June 30, 2017, the State as an employer recognized a pension expense of \$79.2 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of \$1.4 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2017, were \$80.6 million.

Support Revenue

As of the fiscal year ended June 30, 2017, the State as an employer recognized grant revenue of \$15.9 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows

At June 30, 2017, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$59.1 million.

As of the fiscal year ended June 30, 2017, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 4,893	\$ 3,002
Difference between projected and actual earnings on pension plan investments	85,319	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,996	15,640
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2017 Contributions	55,526	-
Totals	\$160,734	\$18,642

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	4,131
2019	4,131
2020	48,485
2021	30,467
2022	-
Thereafter	-

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$30.8 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 88	\$ 54
Difference between projected and actual earnings on pension plan investments	1,532	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	97
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2017 Contributions	28,763	-
Totals	\$30,383	\$151

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	(in thousands)
	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	74
2019	74
2020	871
2021	547
2022	-
Thereafter	-

Sheriffs' Retirement System – The SRS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service Retirement: 20 years of membership service, regardless of age.

Early Retirement: Age 50, 5 years of membership service, actuarially reduced.

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions and are a percentage of the member's compensation. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 9.245% of member's compensation.

Employer contributions to the system – The employers are required to contribute 10.115% of member compensation. Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 5.93%, which is a blend of the assumed long-term expected rate of return of 7.75% on SRS's investments and a municipal bond index rate of 3.01%. The basis for this is the June 30, 2016 Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the SRS's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after June 30, 2056. Therefore, the portion of future projected benefit payments after June 30, 2056, are discounted at the municipal bond index rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the SRS's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 5.93%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (4.93%) or 1.00% higher (6.93%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (4.93%)	Current Discount Rate	1.0% Increase (6.93%)
Employer's SRS Net Pension Liability	\$13,647	\$9,582	\$6,274

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the SRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
Employer Proportionate Share	\$5,434	\$9,582	5.454386%

At June 30, 2017, the State as an employer reported a liability of \$9.6 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of SRS participating employers.

Changes in actuarial assumptions and methods: There were no changes in demographic assumptions that affected the measurement of the total pension liability. There was an adjustment in the discount rate during the measurement period.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the Employer's proportionate share of the collective net pension liability.

Pension Expense

At June 30, 2017, the employer recognized a pension expense of \$1.2 million for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2017, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$389 thousand.

As of the fiscal year ended June 30, 2017, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 34	\$ 7
Difference between projected and actual earnings on pension plan investments	523	-
Changes of Assumptions	4,147	1,544
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	87
Contributions paid to SRS subsequent to the measurement date – FY 2017 contributions	368	-
Totals	\$5,072	\$1,638

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$557
2019	557
2020	807
2021	709
2022	523
Thereafter	-

Municipal Police Officers' Retirement System – The MPORS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan that was established in 1974 and is governed by Title 19, chapters 2 & 9, MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation.

Deferred Retirement Option Plan (DROP)

Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2017, there are 60 DROP participants. Since program inception, a total of 149 members have participated in the DROP. The balance held by MPERA for DROP participants as of June 30, 2017, was approximately \$9.0 million.

The State is not an employer participant in the MPORS plan. However, because the PERB is a fiduciary component unit of the State, this CAFR presents certain information to help ensure compliance with GASB 67. In addition, the State provides nonemployer entity contributions classified as special funding in accordance with GASB 68. Disclosures made in this financial report are meant to reflect the aforementioned relationships.

Summary of Benefits

Member's final average compensation (FAC)

Hired prior to July 1, 1977 – average monthly compensation of final year of service;

Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's FAC.

Eligibility for benefit

Service Retirement: 20 years of membership service, regardless of age.

Second Retirement: Age 50, reemployed in a MPORS position

Early Retirement: Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately

5 years of membership service.

Monthly benefit formula

2.5% of FAC per year of service credit.

Second retirement benefit formula

Recalculated using specific criteria:

Less than 20 years of membership service, based on total MPORS service

More than 20 years of membership service, upon reemployment, receives initial benefit plus a new retirement benefit based on additional service credit and FAC

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA) If hired before July 1, 1997, and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed officer in the city where the member was last employed.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer.

For fiscal year 2017:

- If hired prior to July 1, 1975, member contributions as a percentage of salary are 5.80%
- If hired after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.00%;
- If hired after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.50%; and,
- If hired on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary are 9.00%.

Employer Contributions – Employers are required to contribute 14.41% of a member's compensation.

Nonemployer Entity Contributions – The State contributes 29.37% of a member’s compensation from the General Fund. These amounts are considered a special funding situation in accordance with GASB 68.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin expense as a % of Payroll 0.20%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases
 - GABA
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit
 - Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor’s benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the

inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	<i>(in thousands)</i> Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	\$161,181	\$119,708	\$74,469

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the MPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the MPORS has a special funding situation in which the State is legally responsible for making contributions directly to the MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government's collective net pension liability that is associated with the non-State employer.

	<i>(dollars presented in thousands)</i> Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State as a Nonemployer Contributing Entity – Proportionate Share	\$110,756	\$119,708	66.499650%

At June 30, 2017, the State as a nonemployer contributing entity reported a liability of \$119.7 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2015, through June 30, 2016, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There were no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State recognized grant expense of \$12.8 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$13.8 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	-	\$2,439
Difference between projected and actual earnings on pension plan investments	\$ 7,762	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	532
Contributions paid to MPORS subsequent to the measurement date – FY 2017 Contributions	13,215	-
Totals	<u>\$20,977</u>	<u>\$2,971</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	\$ (245)
2019	(245)
2020	3,298
2021	2,515
2022	-
Thereafter	-

Firefighters' Unified Retirement System – The FURS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation.

Summary of Benefits

Member's compensation

Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);
Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit

Service retirement: 20 years of membership service, regardless of age.

Early Retirement: Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately

5 years of membership service.

Monthly benefit formula

Members hired prior to July 1, 1981, and not electing GABA are entitled to the greater of:

2.5% of HMC per year of service; **or**

- if less than 20 years of service – 2% of HMC for each year of service;
- if more than 20 years of service – 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years.

Members hired on or after July 1, 1981, and those electing GABA: 2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed firefighter employed by the city that last employed the member, provided the member has at least 10 years of membership service.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan. Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating Employer. For members:

Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;

Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

Employer contributions to the system – Employers are required to contribute 14.36% of member's compensation.

Nonemployer entity contributions to the system – The State contributes 32.61% of a member's compensation from the General Fund.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.19%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases
 - GABA
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
 - Minimum Benefit Adjustment (non-GABA)
Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the FURS's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in FURS – Net Pension Liability	\$ 4,067	\$ 2,583	\$ 1,363
State as a Nonemployer Contributing Entity to FURS – Net Pension Liability	121,948	77,448	40,858

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the FURS. GASB 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the FURS has a special funding situation in which the State is legally responsible for making contributions directly to the FURS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or fire district's collective net pension liability that is associated with the non-State employer.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	\$ 2,454	\$ 2,583	2.261523%
State's Proportionate Share as a Nonemployer Contributing Entity	68,892	77,448	67.809541%
State of Montana Totals	\$71,346	\$80,031	70.071064%

At June 30, 2017, the State reported a liability of \$80.0 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2015, through June 30, 2016, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that may have an effect of the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2017, the State as an employer recognized pension expense of \$418.5 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of \$10.0 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2017, was \$10.5 million.

Deferred Outflows and Inflows

At June 30, 2017, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$475.0 thousand.

As of the fiscal year ended June 30, 2017, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	-	\$24
Difference between projected and actual earnings on pension plan investments	\$ 270	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	304	-
Contributions paid to FURS subsequent to the measurement date – FY 2017 Contributions	472	-
Totals	<u>\$1,046</u>	<u>\$24</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	20
2019	20
2020	129
2021	83
2022	(4)
Thereafter	-

At June 30, 2017, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2016 contributions of \$13.6 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	-	\$729
Difference between projected and actual earnings on pension plan investments	\$ 8,108	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	96

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid to FURS subsequent to the measurement date – FY 2017 Contributions	14,042	-
Totals	\$22,150	\$825

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	(in thousands)
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	588
2019	588
2020	3,875
2021	2,457
2022	(131)
Thereafter	-

Volunteer Firefighters' Compensation Act – The VFCA, administered by the MPERA, is a statewide retirement and disability plan established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. The VFCA also provides limited benefits for death or injuries incurred in the line of duty. A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit

Age 55, 20 years of credited service;

Age 60, 10 years of credited service.

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive \$7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at \$250 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting

10 years of credited service.

Monthly benefit formula (effective January 1, 2016)

\$8.75 per year of credited service up to 20 years;

\$7.50 per year of credited service after 20 years

Contributions to the Plan

The State, as a nonemployer contributing entity, is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. This requires the plan to be treated as a special funding

situation in accordance with GASB 68. The State Auditor makes annual payments from the General Fund to the VFCA fund. Rates are specified by state law for contributions to the VFCA plan. The State legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Inflation at 3.00%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

For VFCA the average dollar amount of recurring expense over the last three years was \$63,440, adjusted for the inflation assumption. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the VFCA. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	<i>(in thousands)</i> Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	\$14,818	\$10,599	\$7,004

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the VFCA. GASB 68 became effective June 30, 2015, and includes requirements to record and report proportionate shares of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the VFCA has a special funding situation in which the State is legally responsible for making contributions directly to the VFCA on behalf of volunteer employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a volunteer fire company's collective net pension liability that is associated with the non-State volunteer employer.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State as a Nonemployer Proportionate Share	\$10,504	\$10,599	100%

At June 30, 2017, the State reported a liability of \$10.6 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2015, through June 30, 2016, relative to total contributions received.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the nonemployer's reporting date that are expected to have a significant effect on the nonemployer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of \$688.6 thousand for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$2.0 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	\$761
Difference between projected and actual earnings on pension plan investments	\$1,201	-
Contributions paid to VFCA subsequent to the measurement date – FY 2017 Contributions	2,054	-
Totals	<u>\$3,255</u>	<u>\$761</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	(285)
2019	(285)
2020	613
2021	397
2022	-
Thereafter	-

Teachers' Retirement System – The TRS is administered by the Teachers' Retirement Board (TRB), which is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan that provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college, or unit of the university system. The TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

The TRB is the governing body of the TRS and the TRS's staff administer the TRS in conformity with the laws set forth in Title 19, chapter 20, MCA, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Benefits are established by state law and can only be amended by the Legislature.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation—1.85% of the AFC multiplied by the years of creditable service—for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

A guaranteed annual benefit adjustment (GABA) is payable on January 1 of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier 1 members is 1.5% of the benefit payable as of January 1. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Contributions to the System

All active employees in the TRS, regardless of employer type, are required to provide a contribution equal to 8.15% of their compensation.

All State and University employers are required to contribute 11.15% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.77% of an active, nonreemployed, member's compensation to the System.

Section 19-20-605, MCA, requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to Section 19-20-609, MCA, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of reemployed retiree compensation.

The TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The System receives 0.11% of reportable compensation from the General Fund for all TRS members. The TRS also receives 2.38% of reportable compensation from the General Fund for school districts and other employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1 of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016, valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total wage increases (includes 4% general wage increase assumption) 4.00% to 8.51% for non-university members
5.00% for university members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases (starting three years after retirement)
 - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.
 - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.

- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute \$25 million annually to the TRS payable July 1 of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS – Net Pension Liability	\$76,500	\$57,016	\$40,613
State as a Nonemployer Contributing Entity to TRS – Net Pension Liability	949,304	707,527	503,977

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the TRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. In accordance with GASB 68, the TRS has a special funding situation in which the State is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of the TRS. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State's as an Employer Entity	\$ 56,230	\$ 57,016	3.121008%
State's as a Nonemployer Entity	647,092	707,527	38.729473%
State of Montana Totals	\$703,322	764,543	41.850481%

At June 30, 2017, the State reported a liability of \$764.5 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2015, through June 30, 2016, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: Since the previous measurement date the normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal costs rate reflects the most appropriate allocation of plan costs over future compensation.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2017, the State as an employer recognized a pension expense of \$10.5 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of \$41.7 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension related expenses for fiscal year 2017 was \$52.2 million.

Deferred Outflows and Inflows

At June 30, 2017, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$16.9 million.

As of the fiscal year ended June 30, 2017, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 305	\$ 121
Difference between projected and actual earnings on pension plan investments	3,672	-
Change of assumptions	363	358
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,205	1,173
Contributions paid to TRS subsequent to the measurement date – FY 2017 Contributions	17,396	-
Totals	<u>\$33,941</u>	<u>\$1,652</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$6,706
2019	3,525
2020	3,344
2021	1,318
2022	-
Thereafter	-

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of \$42.4 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,783	\$ 1,504

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	45,561	-
Changes of assumptions	4,503	4,447
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,529	32,074
Contributions paid to TRS subsequent to the measurement date – FY 2017 Contributions	43,028	-
Totals	\$103,404	\$38,025

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in grant expense as follows:

	(in thousands)
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	\$(5,756)
2019	(7,726)
2020	19,478
2021	16,355
2022	-
Thereafter	-

D. Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2017, the Game Warden & Peace Officers' Retirement System (GWORS) and the Highway Patrol Officers' Retirement System (HPORS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should

they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2017, is \$6.3 million and contribution forfeitures were \$230.7 thousand.

Local government entities contribute 8.37% of member compensation. School district employers contributed 8.10% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.47% of member compensation.

The total contribution rate of 8.47%, referenced in the preceding paragraph, is allocated as follows: 8.13% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. See Note 7 for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 43 non-state entity employers participate in the 457-Plan.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Empower Retirement™ is the record keeper for the plan. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.47% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA-CREF. Total contributions made to the plan by the employer were \$15.8 million and the total employee contributions were \$18.7 million for the fiscal year ended June 30, 2017.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of direct real estate investments is based on appraised value. Investments that do

not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of “1-for-5” additional service. In fiscal year 2017, there were 245 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2017 totaled \$70.3 thousand. The outstanding balance at June 30, 2017, totaled \$25.6 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson & Williams PC, in Great Falls, Montana and MPERA legal counsel. The State responded and filed an amended answer to the complaint before filing a motion and brief to change venue and/or to dismiss the matter for lack of subject matter jurisdiction. Following a hearing on June 1, 2017, the State's motions were denied. Discovery requests and responses have been served by both parties. The plaintiff's motion for class certification was filed October 31, 2017.

J. Subsequent Events

The PERB approved a reduction in the assumed rate of return, effective July 1, 2017, from 7.75% to 7.65%.

During the Legislative Special Session, held November 13 through 16, 2017, Senate Bill 1 was passed and signed into law. The change in statute terminated employer contributions to the Judges' Retirement System as of the first full pay period which begins after January 1, 2018. On the first full pay period commencing after June 30, 2019, employer contributions will return to their prior amount. The dollar effect is included in the total amount of reduced spending disclosed in Note 17.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan. Further detail on Retirement Plans is provided in Note 6.

In accordance with Section 2-18-704, MCA, the MUS provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System (TRS), the Public Employees' Retirement System (PERS), or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Montana State Fund, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for the OPEB implicit rate subsidy.

B. Plan Descriptions

Both healthcare OPEB plans for the State of Montana and MUS are agent multiple employer plans. In addition to the primary government, the participating employers under the State Plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Office of Commissioner on Higher Education (OCHE), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Helena College UM, University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and note disclosures. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

Public Employees' Retirement Board
100 North Park, Suite 200
P.O. Box 200131
Helena, MT 59620-0131

Further details on the funding policies are provided in Section D of this note.

C. Basis of Accounting

OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. OPEB is not reported on the governmental fund financial statements, as OPEB liability is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The healthcare OPEB plan document states “an employee enrolled in the State Plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the State Plan on a self-pay basis, retroactive back to the date active employee coverage was lost.” Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2017.

The number of State Plan participants as of December 31, 2016, follows:

State Plan Participants							
Enrollment	State	Facility Finance Authority	Montana Board of Housing	Public Employee Retirement Board	Montana State Fund	Teachers Retirement System	Total
Active employees	11,393	3	32	41	297	16	11,782
Retired employees, spouses, and surviving spouses (1)	3,100	-	3	1	17	7	3,128
Total	14,493	3	35	42	314	23	14,910

- (1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retirees are listed as State regardless of their last place of employment. Since we are unable to account for all retired employees last place of employment cumulatively, an allocation method was used based on the accrued liability and ARC for active employees by entity for the determination of the inactive liability by entity.

The number of MUS Plan participants as of June 30, 2017, follows:

MUS Plan Participants											
Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-UM	UM-Missoula	UM-MT Tech	UM-Western	Other	Total
Active employees	454	2,964	121	120	72	98	2,425	448	193	345	7,240
Retired employees, spouses, and surviving spouses	102	381	7	30	15	10	385	69	47	47	1,093
Total	556	3,345	128	150	87	108	2,810	517	240	392	8,333

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Section 19-3-2141, MCA. There have been no significant changes in the number of participants or the type of coverage as of June 30, 2017.

The number of PERS-DCRP Disability Plan participants as of June 30, 2017, follows:

PERS-DCRP Disability Plan Participants						
Enrollment	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total
Participant counts used for valuation	2,541	3	-	-	-	2,544

D. Funding Policies

The State of Montana and MUS pay for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan.

As of June 2017, the State Plan's administratively established retiree medical contributions vary between \$439 and \$1,633 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between \$41.10 and \$70 and vision hardware contributions vary between \$7.64 and \$22.26 depending on the coverage selected.

As of June 2017, the MUS plan's administratively established retiree medical premiums vary between \$394 and \$2,244 per month. Retiree dental premiums vary between \$52 and \$156 per month while vision premiums vary from \$8.05 to \$23.45 depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

The PERS-DCRP Disability plan is funded through a portion of the statutorily required employer contributions in Section 19-3-2117, MCA. An amount equal to 0.3% of a PERS-DCRP members' compensation is contributed to this trust fund by each participating employer.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of \$34.1 million is 5.46% of annual covered payroll. The State's annual covered payroll is \$624.4

million. The current MUS's ARC of \$9.7 million is 2.26% of annual covered payroll. The MUS's annual covered payroll is \$429.5 million.

There are no long-term contracts for contributions to either plan. Contributions refer to payments made in relation to the ARC. Since the State and MUS do not fund their plans, contributions disclosed as being made herein are an implicit rate subsidy provided through the difference of retiree payments provided to the healthcare plan and claims paid by the plan on a retiree's behalf.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2017 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	\$ 34,107	\$ 9,526
Interest on net OPEB obligation	11,605	4,892
Amortization factor	(9,102)	(3,837)
Annual OPEB cost	36,610	10,581
Retiree claims paid	(9,007)	(3,532)
Increase in net OPEB obligation	27,603	7,049
Net OPEB obligation – beginning of year	273,047	115,096
Net OPEB obligation – end of year	<u>\$300,650</u>	<u>\$122,145</u>

Note that the amounts in the State and MUS Annual OPEB Cost table above include component unit and community college portions and therefore, they will not match the Statement of Net Position.

The State and MUS annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2017 through 2014 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2017	\$36,610	24.6%	\$300,650
	6/30/2016	36,221	24.8%	273,047
	6/30/2015	37,205	28.2%	246,643
	6/30/2014	36,823	19.1%	219,109
MUS	6/30/2017	\$10,581	33.4%	\$122,145
	6/30/2016	10,654	28.7%	115,096
	6/30/2015	10,624	31.3%	107,498
	6/30/2014	10,671	15.9%	99,891

The disability OPEB plan administered for defined contribution pension plan participants has an annual covered payroll, statutorily required contribution amount, and percentage of required contributions paid into the plan for fiscal years 2017 through 2014 as follows for the State and University system plan participants (in thousands):

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2017	\$70,896	\$213	100%
	6/30/2016	66,224	199	100%
	6/30/2015	55,339	166	100%
	6/30/2014	50,083	150	100%
MUS	6/30/2017	\$4,801	\$14	100%
	6/30/2016	4,612	14	100%
	6/30/2015	4,057	12	100%
	6/30/2014	4,115	12	100%

F. Actuarial Methods and Assumptions

As of January 1, 2015, the State's actuarially accrued liability (AAL) for benefits was \$347.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$347.9 million, and the ratio of the UAAL to the covered payroll was 53.87%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2015, actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 3.4% for medical and 10.8% for prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years.

As of July 1, 2015, the MUS actuarially accrued liability (AAL) for benefits was \$110.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$110.5 million, and the ratio of the UAAL to the covered payroll was 26.5%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2016, actuarial valuation, the projected unit cost funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 20.6% for both medical and prescription drugs, initially. The increase to medical and prescriptions drug cost trend rates in plan year 2015 is based on groups cumulative rate increase instead of estimate trend rates. Both medical costs and prescriptions drugs are reduced by decrements to a rate of 4.5% after eight years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (*the plan as understood by the employer and the plan members*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Additional information as of the latest actuarial valuation for the State Plan follows:

Other Postemployment Benefits State Agent Multiple-Employer Plan		
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	\$11,172	\$4,267
After Medicare eligibility	4,454	3,545
Actuarial valuation date	1/1/2015 (ARC calculated through December 31, 2015)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

Additional information as of the latest actuarial valuation for MUS Plan follows:

Other Postemployment Benefits MUS Agent Multiple-Employer Plan		
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	\$8,392	\$3,866
After Medicare eligibility	3,624	2,753
Actuarial valuation date	7/1/2015 (ARC Calculated through June 30, 2016)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	50.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

G. Termination Benefits

During the year ended June 30, 2017, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for seven employees provided for up to twelve months, one-time lump-sum incentive payments for thirty-two employees, and paid administrative leave for four employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2017, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for twenty employees.

During the year ended June 30, 2017, the cost of termination benefits for the fiscal year was \$533.4 thousand and \$637.2 thousand for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 654 policies during the 2017 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2017 growing season, with a 90% share of premiums and losses allotted to the Reinsurer and a 10% share of each allotted to the State Hail Insurance. The fund recorded a liability of \$2.3 thousand which is 10% of the estimated claims (\$19.1 thousand) plus adjustment expenses through June 30, 2017. The amount deducted from the estimated claims as of June 30, 2017, for reinsurance was \$17.2 thousand (90% of estimated claims). The premiums ceded to the reinsurer through June 30, 2017, were \$1.1 million which was 90% of total premiums of \$1.2 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$10.0 million as of June 30, 2017, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of \$750.0 thousand per occurrence (\$500.0 thousand for claims occurring prior to July 1, 2013) and \$1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1.0 million above the self-insured amount of \$750.0 thousand (\$500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2017, the program ceded \$314.3 thousand in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers' Compensation Program Committee based on actuarial calculations of premium need and composite premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$7.3 million for estimated claims at June 30, 2017. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The assessment and surcharge rates are set by the Employment Relations Division of the Department of Labor and Industry annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Employers covered by Plans 1, 2 and 3 share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers in the preceding calendar year.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. The benefit to an insured employer is that the insurer's liability is limited to 104 weeks on the claim. This can favorably impact the employer's modification factor, which in turn can keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2017, the amount of this liability was estimated to be \$2.9 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<u>Hail Insurance</u>		<u>MUS Group Insurance Plan</u>		<u>MUS Workers Compensation</u>	
	2017	2016	2017	2016	2017	2016
Unpaid claims and claim adjustment expenses at beginning of year	\$ 134	\$ 17	\$ 9,100	\$ 7,300	\$ 7,764	\$ 8,289
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	819	324	84,186	90,131	3,096	3,157
Less excess insurance reimbursement	-	-	-	-	-	(62)
Increase (decrease) in provision for insured events of prior years	434	79	-	-	(1,368)	(1,655)
Total incurred claims and claim adjustment expenses	1,253	403	84,186	90,131	1,728	1,440
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(817)	(189)	(83,286)	(88,331)	(940)	(598)
Claims and claim adjustment expenses attributable to insured events of prior years	(568)	(97)	-	-	(1,254)	(1,367)
Total payments	(1,385)	(286)	(83,286)	(88,331)	(2,194)	(1,965)
Total unpaid claims and claim adjustment expenses at end of year	\$ 2	\$ 134	\$ 10,000	\$ 9,100	\$ 7,298	\$ 7,764

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the \$2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below \$2.0 million of value, with state agencies paying the first \$1.0 thousand. Commercial property insurance protects approximately \$5.4 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$2.0 million for earthquake and \$2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2007, through June 30, 2017, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2017, estimated claims liability was \$16.1 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. MedImpact was the administrator for the pharmacy program for the first six months of the fiscal year. The plan operates on a calendar year and the contract expired on December 31, 2016. Navitus replaced MedImpact as the administrator on January 1, 2017. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2017, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$17.7 million as provided by

Actuaries Northwest, a consulting actuarial firm. In fiscal year 2018, \$17.5 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Towers Watson, as of June 30, 2017, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2017, \$32.2 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2017	2016	2017	2016	2017	2016
Amount of claims liabilities at the beginning of each fiscal year	\$ 15,444	\$ 16,953	\$ 17,873	\$ 18,028	\$ 38,410	\$ 41,597
Incurred claims:						
Provision for insured events of the current year	4,786	5,343	159,835	163,115	-	-
Increase (decrease) in provision for insured events of prior years	17,592	(167)	518	(4,035)	1,554	5,707
Total incurred claims	22,378	5,176	160,353	159,080	1,554	5,707
Payments:						
Claims attributable to insured events of the current year	(1,681)	(1,737)	(142,173)	(145,572)	-	-
Claims attributable to insured events of prior years	(20,087)	(4,948)	(18,357)	(13,663)	(7,752)	(8,894)
Total payments	(21,768)	(6,685)	(160,530)	(159,235)	(7,752)	(8,894)
Total claims liability at end of each fiscal year	\$ 16,054	\$ 15,444	\$ 17,696	\$ 17,873	\$ 32,212	\$ 38,410

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2017, the Department of Transportation had contractual commitments of approximately \$204.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2017, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$45.3 million for capital projects construction. The primary government will fund \$9.9 million of these projects, with the remaining \$35.4 million funding coming from the Montana University System.

At June 30, 2017, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately \$1.8 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2017, BOI had committed, but not yet purchased, \$33.2 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$828.0 thousand for loans as of June 30, 2017. As of June 30, 2017, \$656.0 thousand represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2017, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). MBOH does not differentiate between a mortgage reservation and a funding commitment.

BOI makes firm commitments to fund loans from the INTERCAP loan program. BOI's outstanding commitments to eligible Montana governments, as of June 30, 2017, totaled \$30.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2017, the outstanding tax-exempt bonds issued by the Facility Finance Authority were issued in the amount of \$17.5 million of which \$2.3 million in principal payments are scheduled to be paid by June 30, 2018. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds.

E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

<u>Enterprise Funds</u>	<u>Amount</u>
Liquor Warehouse	\$ 99
Prison Industries	58
West Yellowstone Air	144
Subtotal – Enterprise funds	<u>\$301</u>

<u>Internal Service Funds</u>	
Buildings & Grounds	\$ 2
Information Technology Services	50
Labor Central Services	228
Prison Industries	274
Subtotal – Internal Service funds	<u>\$554</u>

F. Encumbrances

As of June 30, 2017, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	Federal Special Revenue Fund	General Fund	Nonmajor Governmental Funds	State Special Revenue Fund	Total
Encumbrances	\$28,579	\$11,355	\$272	\$59,635	\$99,841

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2017, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2018	\$1,901	\$209
2019	1,622	208
2020	1,382	18
2021	1,019	-
2022	512	-
2023-2027	446	-
Total minimum payments	6,882	435
Less: interest	(345)	(20)
Present value of minimum payments	<u>\$6,537</u>	<u>\$415</u>

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	\$ 1,596
Equipment	11,524
Less: Accum Depreciation	<u>(4,771)</u>
Net Book Value	<u>\$ 8,349</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2017 totaled \$28.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2018	\$ 26,428	\$ 936
2019	22,763	937
2020	18,049	588
2021	13,208	338
2022	12,402	319
2023-2027	40,827	1,389
2028-2032	18,866	-
Thereafter	11,196	-
Total future rental payments	<u>\$163,739</u>	<u>\$4,507</u>

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2017, the State issued one bond anticipation note. The proceeds of Coal Severance Tax - 2016E will be used to fund water and wastewater system improvements and rehabilitation. As of June 30, 2017, three bond anticipation notes; Drinking Water - 2016D, Water/Wastewater - 2017B, and Drinking Water - 2017C have been authorized, but not issued and no funds have been drawn. The State issued two bond anticipation notes during fiscal year 2015, and one bond anticipation note during fiscal year 2016, all of which were paid off during fiscal year 2017. Three bond anticipation notes that were issued in fiscal year 2016 are still active at the end of fiscal year 2017. The following schedule summarizes the activity for the year ended June 30, 2017 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Coal Severance Tax – 2014A (1)	\$ 300	\$ -	\$ 300	\$ -
Drinking Water – 2014A	1,065	-	1,065	-
Coal Severance Tax – 2015A (2)	2,605	495	1,850	1,250
Drinking Water – 2015B	900	1,100	460	1,540
Water/Wastewater – 2016C (3)	-	2,000	1,175	825
Coal Severance Tax – 2016E (3)	-	1,034	-	1,034
Coal Tax Trust Fund – 2016	1,207	7,272	8,479	-

(1) Listed as Water / Wastewater – 2014A in prior fiscal year.

(2) Listed as Water / Wastewater – 2015A in prior fiscal year.

(3) These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2017, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2017
1998	12,500	\$ 2,600
2000	15,000	14,255
2003	15,000	14,330
2004	18,500	18,000
2007	15,000	14,725
2010	12,000	11,975
2013	12,000	11,995
2017	20,000	20,000
		<u>\$107,880</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2017 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$97,340	\$20,000	\$9,460	\$107,880

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2017, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2017
				Fiscal Year 2018	In Year of Maturity (2)	
General obligation bonds						
Hard Rock Mining Reclamation	2002C	\$ 2,500	3.5-4.7	\$ 150	200 (2023)	\$ 1,050
CERCLA Program (6)	2005D	2,000	3.25-4.3	105	140 (2026)	1,085
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	655	165 (2019)	820
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	280	330 (2022)	1,530
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,465	2,465 (2018)	2,465
Long-Range Bldg Program	2008D	3,100	3.375-4.35	140	220 (2028)	1,930
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	640	710 (2021)	2,690
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	475	110 (2026)	2,720
Trust Land (Taxable)	2010F	21,000	1.55-4.9	915	1,450 (2031)	16,090
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	235
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	105	70 (2021)	395
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	610	720 (2023)	3,970
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	610	115 (2025)	4,925
Water Pollution Control Revolving Fund (Taxable)(3)	2013D	1,035	0.4-3.7	100	120 (2024)	755
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	490	575 (2024)	3,700
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,510	820 (2028)	24,040
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,890	1,260 (2020)	6,530
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	805	1,860 (2036)	23,695
Total general obligation bonds		\$ 161,220		\$ 14,000		\$ 98,625
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 1,495	1,820 (2022)	\$ 8,270
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	165	215 (2024)	1,320
Broadwater Power Project Refunding (8)	2010A	10,180	3.0-4.0	1,605	1,605 (2018)	1,605
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	75	115 (2031)	1,300
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	365	170 (2031)	4,680
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	10,155	11,040 (2020)	31,785
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	135	185 (2029)	1,870
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	195	290 (2029)	2,815
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	2,925	3,740 (2023)	19,905
Total special revenue bonds		\$ 126,645		\$ 17,115		\$ 73,550

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2017
			Fiscal Year 2018	In Year of Maturity (2)	
Notes Payable					
Middle Creek Dam Project (10)	\$ 3,272	8.125	\$ 85	226 (2034)	\$ 2,119
Tongue River Dam Project (11)	11,300	-	290	290 (2038)	6,085
ITSD Software Licenses	1,004	3.44	335	335 (2018)	335
ITSD Software Licenses	2,890	2.41	971	494 (2019)	1,465
Total notes payable	<u>\$ 18,466</u>		<u>\$ 1,681</u>		<u>\$ 10,004</u>
Subtotal governmental activities, before unamortized balances					182,179
Unamortized discount					(9)
Unamortized premium					11,202
Total governmental activities	<u>\$ 306,331</u>		<u>\$ 32,796</u>		<u>\$193,372</u>

- (1) The interest range is over the life of the obligation.
- (2) Year of maturity refers to fiscal year.
- (3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
- (4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- (6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.
- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.
- (11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2017, were as follows (in thousands):

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 14,000	\$ 3,783	\$ 17,115	\$ 2,875	\$ 1,681	\$ 79
2019	10,145	3,367	16,195	2,234	872	45
2020	9,170	3,034	16,915	1,595	382	41
2021	8,120	2,735	6,160	947	385	41
2022	7,320	2,424	6,445	738	389	41
2023-2027	29,475	7,975	8,735	1,199	2,016	205
2028-2032	13,465	3,196	1,985	145	2,155	205
2033-2037	6,930	714	-	-	1,834	82
2038-2042	-	-	-	-	290	-
Total	<u>\$ 98,625</u>	<u>\$ 27,228</u>	<u>\$ 73,550</u>	<u>\$ 9,733</u>	<u>\$ 10,004</u>	<u>\$ 739</u>

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2017, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<u>Governmental activities</u>						
Bonds/notes payable						
General obligation bonds	\$ 115,500	\$ -	\$ 16,875	\$ 98,625	\$ 14,000	\$ 84,625
Special revenue bonds	89,840	-	16,290	73,550	17,115	56,435
Notes payable	11,643	-	1,639	10,004	1,681	8,323
	216,983	-	34,804	182,179	32,796	149,383
Unamortized discount	(11)	2	-	(9)	-	(9)
Unamortized premium	13,645	-	2,443	11,202	-	11,202
Total bonds/notes payable (3)	230,617	2	37,247	193,372	32,796	160,576
Other liabilities						
Lease/installment purchase payable	3,170	5,206	1,839	6,537	1,767	4,770
Operating lease rent holiday	46	-	19	27	9	18
Pension benefits payable	4	-	-	4	2	2
Compensated absences payable (1)	102,568	57,206	56,209	103,565	55,899	47,666
Arbitrage rebate tax payable (1)	83	-	-	83	-	83
Estimated insurance claims (1)	71,727	184,285	190,050	65,962	29,044	36,918
Pollution remediation	242,989	-	34,208	208,781	23,859	184,922
Net pension liability	1,558,463	231,520	173	1,789,810	-	1,789,810
OPEB implicit rate subsidy (2)	262,599	35,215	8,639	289,175	-	289,175
Total other liabilities	2,241,649	513,432	291,137	2,463,944	110,580	2,353,364
Total governmental activities long-term liabilities	\$2,472,266	\$ 513,434	\$ 328,384	\$2,657,316	\$ 143,376	\$2,513,940
<u>Business-type activities</u>						
Lease/installment purchase payable	600	1	186	415	195	220
Compensated absences payable	2,075	1,021	1,049	2,047	1,044	1,003
Arbitrage rebate tax payable	17	6	-	23	3	20
Estimated insurance claims	20,347	87,167	87,272	20,242	13,658	6,584
Net pension liability	10,750	3,556	13	14,293	-	14,293
OPEB implicit rate subsidy (2)	4,650	641	159	5,132	-	5,132
Total business-type activities long-term liabilities	\$ 38,439	\$ 92,392	\$ 88,679	\$ 42,152	\$ 14,900	\$ 27,252

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.
- (2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy on the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. The OPEB beginning balance was restated due to correction of an error.
- (3) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make three prepayments: \$155.0 thousand on Series 2006D resulting in a payoff, \$900.0 thousand on Series 2010C resulting in a payoff, and \$45.0 thousand on Series 2010H general obligation bonds.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)

BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2017, QZAB debt outstanding aggregated \$6.4 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2017, QSCB debt outstanding aggregated \$5.6 million.

Beginning Farm Loan Program

The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2017, was as follows: Hershberger Project, outstanding \$38.4 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2017, was \$208.8 million. Of this liability, \$13.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$188.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$71.4 million as of June 30, 2017. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term

of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2017 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$79,875	\$32,905	\$41,364	\$71,416

NOTE 12. INTERFUND BALANCES AND TRANSFERS**A. Balances Due From/To Other Funds**

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2017, consisted of the following (in thousands):

	Due to Other Funds						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue
Total							
Due from Other Funds							
Coal Severance Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ -
Economic Development Bonds	-	-	-	1,806	-	103	608
Federal Special Revenue	-	-	3	-	-	-	72
General Fund	-	2,613	-	23	13,230	-	12,889
Internal Service Funds	32	-	-	-	-	-	-
Nonmajor Governmental (1)	-	-	190	-	-	-	88
State Special Revenue (2)	-	11,805	76	3	-	486	-
Total	\$ 32	\$14,418	\$ 269	\$1,832	\$13,230	\$ 602	\$13,657
							\$44,040

- (1) Total due from other funds to the non-major governmental funds on the financial statements is reported as \$1.8 million. The difference of \$1.5 million between the amount reported above of \$278 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.
- (2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as \$20.9 million. The difference of \$8.5 million between the amount reported above of \$12.4 million and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.
- (3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as \$13.5 million. The difference of \$313.3 thousand between the amount reported above of \$13.2 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2017, consisted of the following (in thousands):

	Interfund Loans Payable						
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Interfund Loans Receivable							
General Fund	\$1,677	\$109,466	\$ -	\$277	\$11,624	\$ -	\$123,044
Internal Service Funds	-	211	-	-	-	-	211
State Special Revenue	-	54,695	3	-	-	75	54,773
Total	\$1,677	\$164,372	\$ 3	\$277	\$11,624	\$75	\$178,028

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2017, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax	\$ -	\$ -	\$ 3,996	\$ -	\$ 3,996
Economic Development Bonds	-	5,897	4,649	-	10,546
General Fund	275	-	-	251	526
Nonmajor Governmental Funds	-	-	-	9,767	9,767
State Special Revenue	17,536	-	5,231	-	22,767
Total	<u>\$17,811</u>	<u>\$5,897</u>	<u>\$13,876</u>	<u>\$10,018</u>	<u>\$47,602</u>

Additional detail for certain advance balances at June 30, 2017, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	\$ 4,649
Transportation	5,897
Total	<u>\$10,546</u>

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2017, consisted of the following (in thousands):

	Transfers In								Total
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	
Transfers Out									
Coal Severance Tax	\$ -	\$ -	\$19,799	\$ -	\$-	\$ -	\$ 1,164	\$ 22,050	\$ 43,013
Federal Special Revenue	-	-	157	-	-	-	15,684	13,088	28,929
General Fund	-	22	-	1,053	-	-	12,621	31,641	45,337
Internal Service Funds (1)	-	-	-	296	-	65	160	22	543
Land Grant	-	-	6	-	-	-	1,504	60,168	61,678
Nonmajor Enterprise Funds (2)	-	1	42,497	-	-	-	-	6,664	49,162
Nonmajor Governmental Funds	10	-	67	-	-	-	5,907	23,442	29,426
State Special Revenue	-	1,656	11,361	437	8	286	13,306	-	27,054
Total	\$10	\$1,679	\$73,887	\$1,786	\$8	\$351	\$50,346	\$157,075	\$285,142

- (1) Total transfers-out for internal service funds on the fund financial statements is reported as \$1.0 million. The difference of \$463.2 thousand between the amount reported above of \$543.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.
- (2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as \$49.2 million. The difference of \$6.4 thousand between the amount reported above of \$49.2 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2017, as follows (in thousands):

Fund Type/Fund	Deficit (1)
Internal Service Funds	
Information Tech Services	\$(12,527)
Admin Insurance	(1,890)
Print & Mail Services	(452)
Building and Grounds	(582)
Admin Central Services	(1,792)
Labor Central Services	(6,457)
Commerce Central Services	(1,648)
OPI Central Services	(1,790)
DEQ Indirect Cost Pool	(4,239)
Payroll Processing	(2,293)
Investment Division	(2,186)
Aircraft Operation	(1,150)
Justice Legal Services	(503)
Personnel Training	(285)
Debt Collection	(61)
Other Internal Services	(389)
Enterprise Fund	
State Lottery	\$ (2,390)
Subsequent Injury	(1,605)
Secretary of State Business Services	(482)
Local Government Audits	(37)

- (1) The allocation of net pension and OPEB liabilities is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7 respectively.

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2017.

	State Special Revenue By Source (in thousands)					
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources
Licenses/permits	\$ 67,136	\$30,997	\$ 21,363	\$ 1,363	\$ 166	\$ 78,961
Taxes	204,878	4,250	231,301	-	(13)	17,505
Charges for services	24,222	31,657	6,136	36,462	2,003	22,665
Investment earnings	462	1,858	85	169	198	6,586
Securities lending income	1	66	-	1	5	128
Sale of documents/merchandise/property	479	2,684	123	116	5	1,533
Rentals/leases/royalties	343	11	456	52	3	348
Contributions/premiums	26,406	-	-	-	-	-
Grants/contracts/donations	2,226	667	708	14,283	1,110	4,454
Federal	6,044	19	-	266	1	2
Federal indirect cost recoveries	-	-	41,330	83	-	4,250
Other revenues	2,114	535	315	246	253	204
Transfers in	43,554	4,036	1,564	7,105	1,120	99,696
Total State Special Revenue	\$377,865	\$76,780	\$303,381	\$60,146	\$4,851	\$236,332
						\$1,059,355

	Federal Special Revenue By Source (in thousands)					
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources
Charges for services	\$ 938	\$ 17	\$ -	\$ 3,982	\$ 30,564	\$ (7)
Investment earnings	222	8	-	-	101	53
Securities lending income	-	-	-	-	-	2
Sale of documents/merchandise/property	3	-	-	-	-	3
Grants/contracts/donations	-	-	-	-	-	108
Federal	102,855	11,996	424,052	1,870,032	183,524	101,668
Federal indirect cost recoveries	3	-	-	79,303	51	536
Other revenues	8	6	-	268	4	4
Transfers in	22	1,360	-	296	1	-
Total Federal Special Revenue	\$104,051	\$13,387	\$424,052	\$1,953,881	\$214,245	\$102,364
						\$2,811,980

Governmental Fund Balance By Function, June 30, 2017
(in thousands)

	<u>Special Revenue</u>			<u>Permanent</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>State</u>	<u>Federal</u>	<u>Coal Severance Tax</u>	<u>Land Grant</u>		
Fund balances							
Nonspendable							
Inventory	\$ 3,065	\$ 20,195	\$ -	\$ -	\$ -	\$ -	\$ 23,260
Permanent fund principal	-	500	-	540,477	725,458	323,588	1,590,023
Long-term notes/receivables	525	-	-	-	-	-	525
Prepaid expense	4,106	381	47	-	-	-	4,534
Total nonspendable	7,696	21,076	47	540,477	725,458	323,588	1,618,342
Restricted							
General government	-	1,671	-	-	-	4,778	6,449
Transportation	-	52,636	37	-	-	-	52,673
Health and human services	-	2,266	1,469	-	-	13,045	16,780
Natural resources	-	692,113	-	-	-	10,286	702,399
Public safety	-	235,145	-	-	-	615	235,760
Education	-	8,733	10,525	-	-	24	19,282
Total restricted	-	992,564	12,031	-	-	28,748	1,033,343
Committed							
General government	-	113,813	-	553,774	-	50,084	717,671
Transportation	-	6,201	-	-	-	-	6,201
Health and human services	-	34,173	-	-	-	-	34,173
Natural resources	-	350,189	-	-	-	35,535	385,724
Public safety	-	46,352	-	-	-	-	46,352
Education	-	16,306	-	-	-	-	16,306
Total committed	-	567,034	-	553,774	-	85,619	1,206,427
Assigned							
General government	-	783	-	-	-	509	1,292
Public safety	-	-	-	-	-	892	892
Encumbrance	11,355	-	-	-	-	-	11,355
Total assigned	11,355	783	-	-	-	1,401	13,539
Unassigned	47,933	-	-	-	-	-	47,933
Total fund balance	\$66,984	\$1,581,457	\$12,078	\$1,094,251	\$725,458	\$439,356	\$3,919,584

(1) The 2017 Legislature projected \$112.0 million of unassigned fund balance for fiscal year 2017.

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation (SAF). Approximately 68.36%, or \$745.5 million of MGSLP's outstanding loan volume is held by MHESAC. A Board of Regents board member is also on the board of MHESAC.

The Department of Administration transitioned from a full member to an associate member of the Montana Association of Health Care Purchasers (MAHCP) effective January 1, 2016. This membership expired on December 31, 2016. Associate membership does not require a membership fee, but no longer provides a seat on the board. DOA also paid \$0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program, for the period July 1, 2016, through December 31, 2016. The relationship with MAHCP was terminated as of January 1, 2017.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT from Mineral Plaza, LLC, in which one of the owners is Johnette Watkins, a local job service manager. The term of the lease is four years beginning July 1, 2013, and ending June 30, 2017. The annual lease amount is currently set at \$21,330.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a base settlement amount of \$832 million payable over 26 years. The base amount was augmented by \$90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017.

The settlement provides that the cigarette manufacturers may offset, against their payment in any year, certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their national market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question. The First Judicial District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically

articulated that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2004-2017, for which years the OPMs have already received a determination that MSA terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

Factual arguments exist to show that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect and diligently enforced during 2004-2016 and thereafter to date. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2004-2017, which would be recouped through an offset of payments due to Montana in future years. The OPMs will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and certain tobacco product manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration. Montana filed a Declaratory Judgement action in March 2017, in the same docket in the First Judicial District, to determine the State's diligent enforcement for calendar year 2004. Trial is currently set for June 2018.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost \$41 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the \$41 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with \$1.2 million for PPL's costs relating to the appellate proceedings. All but approximately \$31,000 relate to premiums that PPL paid for a supersedeas bond in support of staying the \$41 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for \$31,263. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The

parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgement. Several procedural motions have taken place since the prior fiscal year-end, but none that require the State to revise its earlier held opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately \$1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision is expected to be issued in early 2018.

As of June 30, 2017, the State paid Plaintiffs \$1.4 million in base payments plus interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Kohoutek, Inc. v. Montana involves a class action constitutional challenge to the state's statute governing compensation for mandatory case-lot sales of liquor. Agency liquor stores are required by statute to provide an 8% discount to liquor licensees for sales of unbroken case-lots. Section 16-2-101(2)(b)(ii)(B), MCA, provides for a weighted average discount ratio to offset for some or all of this mandatory case lot discount. The weighted average discount ratio is based on fiscal year 1994 sales. Plaintiffs contend that this provision, rooted in 1994 rather than based on actual sales, violates their rights to substantive due process and equal protection, and constitutes a taking.

Plaintiffs filed a Complaint for Declaratory, Injunctive, and Class Relief on March 25, 2014, before the Eighth Judicial District Court, ADV-14-181. The District Court for the Eighth Judicial District granted class certification by Order dated August 21, 2014. The case has been bifurcated into two parts: constitutionality and damages. The Court heard oral argument on the Plaintiffs' Motion for Partial Summary Judgment, addressing its constitutional claims, on January 20, 2015, and will decide on that issue in the near future.

On May 28, 2015, the District Court determined that Section 16-2-101(2)(b)(ii)(B), MCA, violated the plaintiffs' rights to substantive due process and to equal protection of the law because the state has continued to use 1994 sales information to reimburse agency liquor stores for the mandatory case lot discounts.

On August 2, 2016, District Judge Greg Pinski ruled the damages due to the class is \$14.7 million. Further proceedings were held on December 2, 2016, to determine whether interest and attorney fees are due to the plaintiffs; as of this action, it was determined that \$8.7 million would be awarded in attorney's fees and \$2.8 million in interest. Total judgement against the State is \$26.2 million, but this amount has been stayed pending appeal to the Montana Supreme Court.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. Currently, the parties reached a Class Action Settlement signed February 14, 2017, which includes the Department's agreement to pay attorney's fees. During settlement negotiations, the Class attorneys indicated they would be seeking in the neighborhood of \$1.1 million in attorney's fees for a period spanning from 2008 until close. The Department will contest that amount before the Court. That projected sum does not include the anticipated two-year monitoring period as well. At this time, the department cannot specify an anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at MSP. The district court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The department has exchanged settlement proposals and has met with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff's chances of success are fair, given the current political climate. Plaintiffs have made a number of unreasonable demands that would cost the Department millions of dollars and at least \$800.0 thousand in attorney's fees and undisclosed expert witness fees. At this time the department cannot specify an anticipated amount of financial obligation.

Fisk v. Montana Department of Corrections, (Cause # ADV-2016-962): An employment case filed by a current employee at Montana State Prison, alleging discrimination by gender and military status. This matter is currently set for trial to begin January 19, 2018. The plaintiff is seeking over \$800.0 thousand in monetary damages; if successful, a court would likely order an award of attorneys' fees as well. The plaintiff's chances of success are: poor to fair.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Sheriffs' Retirement System (SRS). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has two items of litigation in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2017, the State distributed \$1.2 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed \$10.6 million in commodities in fiscal year 2017. The value at June 30, 2017, of commodities stored at the State's warehouse is \$1.7 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2017, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling \$179.3 million. The BOI's exposure to bond issues of the Economic Development Bonds Fund was \$107.9 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was \$71.4 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2017, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General Fund</u>
Corporate Tax	\$37,071

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2017. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2017, these include \$6.5 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2017. As of June 30, 2017, these include \$3.6 million of protested property taxes recorded in the General Fund and \$4.1 million recorded in the State Special Revenue Fund. In addition, certain companies have appealed an additional \$5.6 million in regular property taxes recorded in the General Fund on the State's financial statements.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

During fiscal year 2017, Board of Investments (BOI) requested a 100% redemption in the amount of \$174.0 million from one manager, pertaining to investments from Consolidated Asset Pension Pool (CAPP), Trust Funds Investment Pool (TFIP), and All Other Funds (AOF). Since June 30, 2017, redemptions in the amount of \$67.6 million have been received. BOI is confident and it is understood that the full redemption would be received over a reasonable time period.

Since June 30, 2017, BOI made additional commitments to fund loans from the INTERCAP loan program in the amount of \$10.0 million.

Since June 30, 2017, BOI has received recovery payments associated with the Structured Investment Vehicle (SIV) related assets in the amount of \$1.7 million, representing \$1.1 million of principal and \$600.0 thousand of interest.

Since June 30, 2017, BOI has committed an additional \$490.0 million to alternative equity partnerships within CAPP, with allocations of \$145.0 million within the Private Equity Asset Class, \$145.0 million within the Natural Resource Asset Class and \$200.0 million within the Real Estate Asset Class of CAPP.

On August 1, 2017, BOI reallocated assets held within a small cap domestic equity fund to four of BOI's existing small cap domestic equity managers. The transfer of securities and cash occurred within the Domestic Equity Asset Class of the CAPP. The approximate market value of the transition was \$120.0 million.

On August 22, 2017, BOI approved two Qualified Zone Academy Bonds (QZAB) loans in the amount of \$1.4 million.

As of August 22, 2017, BOI had approved an additional loan guarantees from the Coal Severance Tax Fund to Facility Finance Authority (FFA) totaling \$15.0 million. BOI also approved an increase of \$4.0 million to a previously approved \$10.0 million commercial loan commitment. Since June 30, 2017, the BOI has received an additional \$28.8 million in loan reservations from Montana lenders.

On August 30, 2017, BOI terminated one manager in the Domestic Equity Asset Class with the CAPP. A transition manager was hired to liquidate the portfolio and cash was transferred to BOI's Cash Asset Class within the CAPP, which in turn purchased STIP. The approximate market value of the transition was \$179.0 million.

In November 2017, BOI reallocated assets held within an international small cap fund to three of BOI's existing international small cap equity managers. The transfer of securities and cash occurred within the International Equity Pension Asset Class of CAPP. The approximate market value of the transition was \$150.0 million.

In November 2017, the Governor called the Montana legislature into special session to address a significant budget shortfall in the State's General Fund. Senate Bill 4 was passed into law and directs BOI to apply a 3% charge against the average total investments of the State Fund in excess of \$1.0 billion providing certain conditions are met. BOI is directed to transfer money from this charge on or before April 1, 2018, and April 1, 2019, to the State's Fire Suppression Fund. BOI is not providing additional investment services in making the transfer as required by the Act. Additional information about the special session is provided below.

In December 2017, two new managers were hired in the High Yield Pension Asset Class. Each manager was funded with \$50.0 million.

Other Subsequent Events

On July 23, 2017 and August 11, 2017, Governor Bullock declared a fire emergency in the state. The governor issued an executive order announcing Montana to be in a state of disaster on September 1, 2017. As of October 26, 2017, State's estimated fire costs for the calendar year fire season was approximately \$71.7 million.

Senate Bill 261 (SB 261), passed during the 2017 Legislative Session, contained requirements for the Department of Administration to determine, by August 15, 2017, the unaudited revenue for the General Fund and compare this to estimates approved by the Legislature. The bill also cut spending authority for fiscal year 2018 should the unaudited revenue balance fall below \$2.216 billion at five different intervals. As General Fund revenue was less than any threshold provided within the legislation, cuts and transfers to the General Fund totaling \$97.0 million were implemented. Additionally, SB 261 created the Budget Stabilization Reserve Fund, Montana's first formal "Rainy Day" fund. Although, due to actual revenues being less than estimated by the 65th Legislature, for the fiscal year ended June 30, 2017, no deposits were made to the Budget Stabilization Reserve Fund.

On September 18, 2017, the Board of Examiners approved the issuance of a \$1.0 million General Obligation Renewable Resource Program Bond, Taxable Series 2017A, \$3.4 million General Obligation Bond Anticipation Notes, Taxable Series 2018B, for the Drinking Water Revolving Fund Program, and \$3.1 million in General Obligation Bond Anticipation Notes, Taxable Series 2018C, for the Water Pollution Control State Revolving Fund Program.

Effective October 1, 2017 the loan servicing portion of the Montana Guaranteed Student Loan Program (MGSLP) was transferred to a federally approved national education loan servicing provider. This transfer was approved by the Montana Board of Regents in May 2017. The program will continue to offer other student financial aid-related activities for the benefit of Montana students as determined by the Montana Board of Regents. After the transfer of the loan servicing portion, MGSLP will be required to return the Federal Student Loan Reserve Fund to the US Department of Education. As of September 30, 2017, the amount of the return was \$6.6 million.

On October 24, 2017, Galen Hollenbaugh was appointed as the new Commissioner of the Department of Labor and Industry.

On November 6, 2017, Governor Bullock called for a special session of the Legislature to address an anticipated \$228.2 million General Fund deficit balance for the budget period ended June 30, 2019. The session was held from November 13 through 16, 2017. The Legislature approved revenue proposals estimated to generate an additional \$44.7 million in revenue and \$95.2 million in fund transfers and other legislation. In coordination with this, on November 14, 2017, the Governor enacted \$76.7 million in expenditure cuts under the authority granted by 17-7-140, MCA.

On January 22, 2018, a group of Montana State Fund (MSF) policyholders filed suit against the State, MSF and the Board of Investments (BOI), in Lake County District Court, in an effort to prevent BOI from charging a 3% management fee on any single investor whose average portfolio balance held by BOI is greater than \$1.0 billion. This fee was implemented as part of the revenue enhancements passed during the Legislative Special Session disclosed above.

NOTE 18. COMPONENT UNITS**A. Condensed Financial Statements**

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2017 (in thousands):

Condensed Statement of Net Position Component Units						
	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	\$609,471	\$5,582	\$1,650,567	\$614,260	\$504,086	\$3,383,966
Due from primary government	-	-	-	640	1,042	1,682
Due from component units	-	-	-	49	222	271
Capital assets (net) (Note 18C)	2	-	27,687	478,466	381,392	887,547
Total assets	609,473	5,582	1,678,254	1,093,415	886,742	4,273,466
Deferred Outflows of Resources	752	43	3,407	35,478	27,283	66,963
Liabilities:						
Accounts payable and other liabilities	6,937	12	126,100	69,431	54,638	257,118
Due to primary government	-	-	-	2,221	1,930	4,151
Due to component units	-	-	-	222	49	271
Advances from primary government	-	-	-	18,573	20,617	39,190
Long-term liabilities (Note 18I)	449,953	342	1,030,179	373,602	275,378	2,129,454
Total liabilities	456,890	354	1,156,279	464,049	352,612	2,430,184
Deferred Inflows of Resources	7	1	78	1,229	1,162	2,477
Net Position:						
Net investment in capital assets	2	-	27,687	305,890	264,065	597,644
Restricted	153,326	-	-	310,969	337,255	801,550
Unrestricted	-	5,270	497,617	46,756	(41,069)	508,574
Total net position	\$153,328	\$5,270	\$525,304	\$663,615	\$560,251	\$1,907,768

- (1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2016.

**Condensed Statement of Activities
Component Units**

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (2)	Montana State University	University of Montana	Total Component Units
Expenses	\$ 20,822	\$ 462	\$210,763	\$573,551	\$458,117	\$1,263,715
Program Revenues:						
Charges for services	1,541	783	169,677	272,972	191,932	636,905
Operating grants and contributions	19,047	75	-	181,074	161,079	361,275
Capital grants and contributions	-	-	-	5,005	14,118	19,123
Total program revenues	20,588	858	169,677	459,051	367,129	1,017,303
Net (expense) program revenues	(234)	396	(41,086)	(114,500)	(90,988)	(246,412)
General Revenues:						
Unrestricted grants and contributions	-	-	-	107	-	107
Unrestricted investment earnings	-	-	50,239	5,099	24,332	79,670
Transfer from primary government (1)	-	-	-	136,645	103,522	240,167
Gain (loss) on sale of capital assets	-	-	-	594	-	594
Miscellaneous	-	-	1,237	-	-	1,237
Contributions to term and permanent endowments	-	-	-	21,724	30,494	52,218
Total general revenues and contributions	-	-	51,476	164,169	158,348	373,993
Change in net position	(234)	396	10,390	49,669	67,360	127,581
Total net position – July 1 – as previously reported	153,871	4,963	514,961	613,946	491,240	1,778,981
Adjustments to beginning net position	(309)	(89)	(47)	-	1,651	1,206
Total net position – July 1 – as restated	153,562	4,874	514,914	613,946	492,891	1,780,187
Total net position – June 30	\$ 153,328	\$ 5,270	\$525,304	\$663,615	\$560,251	\$1,907,768

(1) Includes non-employer pension revenue and payments for services provided.

(2) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2016.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	\$ 8,650	\$ 8,226	\$ 1,139	\$ 18,015
Construction work in progress	38,638	10,548	-	49,186
Capitalized collections	9,783	18,300	-	28,083
Livestock for educational purposes	3,858	-	-	3,858
Total capital assets not being depreciated	60,929	37,074	1,139	99,142
Capital assets being depreciated:				
Infrastructure	44,820	9,904	-	54,724
Land improvements	25,033	15,893	-	40,926
Buildings/Improvements	653,517	602,472	27,941	1,283,930
Equipment	162,401	92,215	7,395	262,011
Livestock	-	255	-	255
Library books	66,776	61,867	-	128,643
Leasehold improvements	3,246	-	-	3,246
Total capital assets being depreciated	955,793	782,606	35,336	1,773,735
Total accumulated depreciation	(546,220)	(448,092)	(9,016)	(1,003,328)
Total capital assets being depreciated, net	409,573	334,514	26,320	770,407
Intangible assets	1,589	1,360	230	3,179
MSU Component Unit capital assets, net	6,375	-	-	6,375
UM Component Unit capital assets, net	-	8,444	-	8,444
Discretely Presented Component Units capital assets, net	\$478,466	\$381,392	\$27,689	\$887,547

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2016, approximately 24,200 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2016, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2016, \$921.5 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2016, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to \$100.0 million in which MSF retains the first \$5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of \$5.0 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2014 through December 31, 2016. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$10.4 million during the year ended December 31, 2016.

Estimated claim reserves were reduced by \$5.1 million as of December 31, 2016, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional \$13.1 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2016
Unpaid claims and claim adjustments expenses at beginning of year	\$ 900,296
Incurring claims and claim adjustment expenses:	
Provision for insured events of the current year	147,194
Increase (decrease) in provision for insured events of prior years	(64)
Total incurred claims and claim adjustment expenses	147,130
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(31,040)
Claims and claim adjustment expenses attributable to insured events of prior years	(94,854)
Total payments	(125,894)
Total unpaid claims and claim adjustment expenses at end of year	\$ 921,532

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2017, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2018	\$216
2019	142
2020	93
2021	45
2022	9
Total minimum payments	505
Less: interest	(49)
Present value of minimum payments	\$456

G. Operating Leases

Future rental payments under operating leases at June 30, 2017, are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2018	\$ 4,324
2019	2,870
2020	2,450
2021	1,457
2022	1,066
2023-2027	2,297
Total future rental payments	<u>\$14,464</u>

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2017, were as follows (in thousands):

Year Ended June 30	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 14,860	\$ 14,842	\$ 10,354	\$ 5,965	\$ 8,506	\$ 3,293
2019	15,355	14,544	11,841	5,721	8,825	2,964
2020	15,745	14,194	9,349	5,401	9,220	2,611
2021	16,240	13,798	9,372	5,086	9,565	2,227
2022	16,655	13,350	9,727	4,761	10,031	1,828
2023-2027	94,515	58,314	32,564	19,488	34,939	4,122
2028-2032	101,360	40,781	24,935	13,251	8,585	911
2033-2037	87,080	22,603	23,213	8,063	960	38
2038-2042	61,759	8,873	16,747	4,026	-	-
2043-2047	17,350	1,219	8,799	462	-	-
2048-2052	130	3	-	-	-	-
Total	<u>\$ 441,049</u>	<u>\$ 202,521</u>	<u>\$ 156,901</u>	<u>\$ 72,224</u>	<u>\$ 90,631</u>	<u>\$ 17,994</u>

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2017, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<u>Discretely presented component units</u>						
Bonds/notes payable						
Montana Board of Housing	\$ 477,014	\$ 42,643	\$ 73,040	\$ 446,617	\$ 14,860	\$ 431,757
Montana State University (MSU)	163,939	7,253	11,025	160,167	10,328	149,839
University of Montana (UM)	100,386	-	8,340	92,046	8,540	83,506
Total bonds/notes payable (1)	741,339	49,896	92,405	698,830	33,728	665,102
Other liabilities						
Lease/installment purchase payable	550	156	250	456	192	264
Compensated absences payable	61,764	32,297	30,193	63,868	31,969	31,899
Arbitrage rebate tax payable	761	217	417	561	304	257
Estimated insurance claims	900,296	147,129	125,894	921,531	128,265	793,266
Due to federal government	32,501	318	310	32,509	-	32,509
Derivative instrument liability	6,097	-	1,909	4,188	-	4,188
Reinsurance funds withheld	89,571	-	13,832	75,739	-	75,739
Unearned compensation	391	-	-	391	-	391
Net pension liability	178,700	42,099	14,153	206,646	-	206,646
OPEB implicit rate subsidy (2)	114,894	10,899	3,548	122,245	-	122,245
Total other liabilities	1,385,525	233,115	190,506	1,428,134	160,730	1,267,404
	<u>\$2,126,864</u>	<u>\$283,011</u>	<u>\$282,911</u>	<u>\$2,126,964</u>	<u>194,458</u>	<u>1,932,506</u>
Long-term liabilities of Montana University System component units (4)					(105)	2,595
Total discretely presented component units' long-term liabilities					<u>\$194,353</u>	<u>\$1,935,101</u>

- (1) When applicable, this amount includes unamortized discounts and unamortized premiums.
- (2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.
- (3) Beginning balances are taken from component unit financial statements.
- (4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2017, \$98.3 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2017, revenue bonds and notes outstanding aggregated \$947.0 million.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)

MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2017, bonds outstanding aggregated \$36.6 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$71.4 million as of June 30, 2017. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2017 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$79,875	\$32,905	\$41,364	\$71,416

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2017. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
\$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
\$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2017, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods

described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at \$0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option’s value included intrinsic value and time value. The option’s intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2017, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2017, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty’s credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2017 (in thousands):

Cash flow hedges:	Notional	Activity During 2017		Fair Values at June 30, 2017	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	\$20,475	Interest expense	\$ 18	Loan receivable	<u>\$ 250</u>
		Investment income	-	Derivative liability	<u>4,189</u>
		Deferred outflow	(1,909)		
Investment derivative –					
Basis swap	\$20,475	Investment loss	\$808	Investment (excluding interest accrued)	<u>\$ 463</u>

The objective and terms of MSU’s hedging derivative outstanding as of June 30, 2017, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$20,475	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2017, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2017, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk

All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk

Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the years ended June 30, 2017, \$283.2 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space

and business consulting to local “start-up” companies. The corporation’s board of directors is comprised equally of members appointed by MAEDF and UM.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided \$988.9 thousand during 2017 and Friends of KEMC Public Radio provided \$802.6 thousand during 2017 in support of MSU’s television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers’ Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least \$2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of \$2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers’ Compensation Court. The matter is Steven Hanson vs. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

P. Subsequent Events

Subsequent to Montana State Fund’s (MSF) fiscal year ended December 31, 2016, the Board of Investments (BOI) decided to divest its investment in the TIAA-CREF US Cities Fund LP. Sales of the investments took place throughout calendar year 2017 and proceeds from the sales were used to repurchase similar investments. No value impairment is considered to have happened and therefore, adjustments to the investment values are not considered necessary.

In response to declining enrollment, the University of Montana’s (UM) Missoula campus implemented voluntary termination plans to reduce the percentage of its budget spent on personnel costs.

Voluntary Employment Retirement Incentive Program (VERIP)

The first of two VERIP offerings was announced in May 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- Be full-time tenured faculty,
- Be age 65 years of age or older as of May 12, 2017, and,
- Be eligible to retire under Montana Teacher’s Retirement System or the Montana University System-Retirement Plan (MUS-RP) as of May 12, 2017.

Eligible faculty members who accepted the offer by July 17, 2017, received a lump sum payment equal to 50% of their FY2016-2017 general fund contract base salary.

The second VERIP offering was announced in June 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- Be full-time tenured faculty,
- Be age 60-64 years of age as of May 12, 2017, and,
- Be eligible to retire under Montana Teacher’s Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 28, 2017, could elect to receive either of the following:

- A lump sum payment equal to 50% of their fiscal year 2016 through fiscal year 2017 general fund contract base salary, or,
- The lump sum payment outlined above, less any deductions for premiums paid for coverage in the UM retiree health insurance plan until their 65th birthday.

Faculty members who accepted the May or June 2017 VERIP offering were terminated on July 17, 2017, or July 28, 2017, respectively. The total cost to the UM for the 14-tenured faculty who accepted the VERIP was approximately \$1.6 million.

Voluntary Severance Option (VSO)

UM announced the VSO in October 2017, which was extended to currently employed, full-time (1.0 FTE) classified staff, contract professionals, and contract administrators, whose positions are funded by the General Fund and had an initial employment date no later than October 17, 2015. The offer extended to December 6, 2017, and employees who accepted the VSO were terminated on December 31, 2017. The VSO provided for the employee to be paid an equivalent of six months of wages, at their stated salary level as of December 6, 2017, as severance in January 2018.

In addition:

- The employee retains medical and dental coverage until December 31, 2018; or,
- The employee may elect to receive a lump sum payment of \$12.6 thousand (the value of 12 months of health insurance), plus their severance payment, in lieu of remaining on the health insurance plan.

The VSO offer was accepted by 84 employees and the UM expects the cost of the plan to be approximately \$3.8 million, to be paid primarily in fiscal year 2018.

In July 2017, the Montana State University (MSU) received authorization to enter into a long-term space lease at a cost of up to \$1.7 million per year for ten years. The lessor is the MSU Innovation Campus, a subsidiary of the Montana State University Alumni Foundation. The leased facility is not yet constructed, and will be designed to meet requirements necessary to conduct classified research on the Bozeman campus. The capacity to perform classified research will qualify MSU to perform additional types of research funded by governmental grants. At the expiration of the lease term MSU will have the right of first refusal to purchase or continue leasing the property at no cost (other than operations and maintenance).

On July 12, 2017, Montana State University (MSU) issued \$21.0 million in Series 2017D bonds to refund all of the Series 2006 bonds with stated maturities in the years 2017 and thereafter and to refund all of the Series 2011M bonds with stated maturities in the years 2022 and thereafter. The refunded principal amount for Series 2006K and Series 2011M is \$8.5 million and \$12.9 million respectively. The refunding resulted in an economic gain to MSU of \$1.3 million.

On July 24, 2017, the University of Montana (UM) issued \$14.1 million of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provide funds to construct a Living Learning Center (LLC) on the UM Tech campus in Butte.

UM will record \$14.1 million of the Series O bonds payable in fiscal year 2018. The interest rate on the revenue bonds is 3.390% over the 20-Year Term of the bonds.

The LLC is a three-story new construction building. The first two floors make up a new residential hall for Montana Tech student residents. The third floor of the new space is known as the Student Success Center. This new space will service all students on the Butte campus. Additional operation and maintenance costs for the residential hall living space are forecasted at \$320.8 thousand annually; beginning Fall 2019. All O&M costs for the residential hall and dining space will be paid from Auxiliary funds.

The \$14.1 million Series O revenue bond will be re-paid from new net revenue (both residence life and dining) generated by the LLC. Debt Service payments for the new facility are estimated at \$1.0 million per year for 20 years. Revenue committed toward the payment of debt are currently generating funds in excess of recurring operating and debt service requirements. This situation allows for the re-direction of these funds to the new Series O debt. The existing debt is fully paid in fiscal year 2024 providing additional revenues to commit to the \$14.1 million debt.

On August 29, 2017, approximately \$21.5 million in Master Loan Program Revenue Refunding Bonds, Series 2017, were issued by the Facility Finance Authority (FFA) for the benefit of Glendive Medical Center to advance refund bonds issued in 2008.

In August 2017, MSU entered into an off-campus lease for space to accommodate university support functions, which will make available approximately 35,000 square feet in the core of the Bozeman campus for academic and student support services. The lessor is a subsidiary of the MSU Alumni Foundation. The lease terms began September 1, 2017, and is for an initial ten-year period, with up to four renewals of five years each. Discounted rent is charged while MSU performs leasehold improvements and transitions its staff into the building, and full rent of \$25.0 thousand per month begins in May 2018. Annual escalators of 2% are included for the initial ten-year lease term.

On August 31, 2017, a Direct Loan for \$141.6 thousand Direct Loan was made by the FFA to Northern Rockies Medical Center to finance the purchase of a new telemetry unit.

On September 7, 2017, the Board of Housing issued a contract for the purchase, sale, and delivery of \$42.6 million in bonds closing on October 18, 2017. Of this, \$11.9 million of the funds will be used to refund previous issues, \$30.3 million will be used to purchase eligible Montana home loans, and the remaining \$400.0 thousand will be used to pay issuance costs.

On September 15, 2017, MSF's board declared a dividend of \$40.0 million to be distributed to approximately 23,000 employers.

Effective October 1, 2017, a space lease for property near the MSU Bozeman campus was renewed at a cost of \$104.0 thousand per year for an initial three-year term, with two one-year renewal options.

On October 5, 2017, a Direct Loan for \$300.0 thousand was made by the FFA to Intermountain Children's Services to finance the purchase of a new electronic health records system.

In November 2017, the Board of Regents approved the issuance of bonds to construct a new residence hall on the MSU Bozeman campus. Construction proceeds of \$50.0 million, plus costs of issuance, a debt service reserve fund, and capitalized interest (if needed), were authorized for a borrowing term of up to 30 years.

In November 2017, the Board of Regents authorized the issuance of up to \$4.5 million in InterCap debt to fund the construction of a student activity complex on the MSU Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt.

Subsequent to June 30, 2017, MSU drew the remaining \$6.0 million on its Series C bonds, bringing the total outstanding as of January 8, 2018, to \$16.5 million. No further draws will be made.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**Constitutionality of Retirement Plan Funding**

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2017, the Game Warden & Peace Officers' Retirement System (GWORS), and the Highway Patrol Officers' Retirement System (HPORS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2017.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	\$ 125,616	\$ 125,616	\$ 125,737	\$ 121
Taxes:				
Natural resource	90,220	90,220	71,042	(19,178)
Individual income	1,307,356	1,307,356	1,161,730	(145,626)
Corporate income	156,751	156,751	133,247	(23,504)
Property	262,709	262,709	258,698	(4,011)
Fuel	-	-	-	-
Other	244,043	244,043	237,589	(6,454)
Charges for services/fines/forfeits/settlements	39,846	39,846	35,035	(4,811)
Investment earnings	-	-	7,400	7,400
Sale of documents/merchandise/property	387	387	369	(18)
Rentals/leases/royalties	8	8	8	-
Contributions/premiums	180	180	4,727	4,547
Grants/contracts/donations	4,130	4,130	10,116	5,986
Federal	25,254	25,254	18,416	(6,838)
Federal indirect cost recoveries	177	177	244	67
Other revenues	5,979	5,979	957	(5,022)
Total revenues	2,262,656	2,262,656	2,065,315	(197,341)
EXPENDITURES				
Current:				
General government	384,521	384,521	353,582	30,939
Public safety	333,667	333,667	318,926	14,741
Transportation	-	-	-	-
Health and human services	541,407	541,407	538,738	2,669
Education	1,064,745	1,064,745	1,058,596	6,149
Natural resources	41,767	41,767	37,738	4,029
Debt service (Note RSI-1):				
Principal retirement	-	-	56	(56)
Interest/fiscal charges	-	-	197	(197)
Capital outlay (Note RSI-1)	-	-	7,270	(7,270)
Total expenditures	2,366,107	2,366,107	2,315,103	51,004
Excess of revenue over (under) expenditures	(103,451)	(103,451)	(249,788)	(146,337)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	196	196	252	56
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	73,415	73,415	73,886	471
Transfers out (Note 12)	(260,064)	(260,064)	(45,336)	214,728
Total other financing sources (uses)	(186,453)	(186,453)	28,802	215,255
Net change in fund balances (Budgetary basis)	(289,904)	(289,904)	(220,986)	68,918
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	55	55
2. Securities lending costs	-	-	(19)	(19)
3. Inception of lease/installment contract	-	-	-	-
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances (GAAP basis)	(289,904)	(289,904)	(220,950)	68,954
Fund balance - July 1	-	-	271,310	271,310
Prior period adjustments	-	-	16,370	16,370
Increase (decrease) in inventories	-	-	254	254
Fund balances - June 30	\$ (289,904)	\$ (289,904)	\$ 66,984	\$ 356,888

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
\$ 201,515	\$ 201,515	\$ 199,980	\$ (1,535)	\$ -	\$ -	\$ -	-
122,532	122,532	69,683	(52,849)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
16,845	16,845	16,729	(116)	-	-	-	-
222,433	222,433	231,296	8,863	-	-	-	-
140,295	140,295	138,386	(1,909)	1	1	-	(1)
108,609	108,609	106,465	(2,144)	48,618	48,618	35,496	(13,122)
-	-	5,739	5,739	-	-	384	384
4,717	4,717	4,817	100	3	3	3	-
849	849	980	131	-	-	-	-
27,180	27,180	26,296	(884)	-	-	-	-
10,259	10,259	11,822	1,563	108	108	108	-
9,316	9,316	7,116	(2,200)	2,375,117	2,375,117	2,694,127	319,010
51,280	51,280	45,583	(5,697)	67,012	67,012	79,893	12,881
5,116	5,116	3,175	(1,941)	412	412	289	(123)
920,946	920,946	868,067	(52,879)	2,491,271	2,491,271	2,810,300	319,029
346,613	346,613	189,652	156,961	251,983	251,983	105,148	146,835
89,980	89,980	71,863	18,117	36,960	36,960	13,475	23,485
320,219	320,219	217,582	102,637	539,009	539,009	111,680	427,329
173,112	173,112	159,348	13,764	2,128,873	2,128,873	1,947,967	180,906
103,089	103,089	71,575	31,514	302,496	302,496	214,285	88,211
350,957	350,957	189,675	161,282	154,468	154,468	68,119	86,349
-	-	638	(638)	-	-	30	(30)
-	-	359	(359)	-	-	6	(6)
-	-	49,864	(49,864)	-	-	319,171	(319,171)
1,383,970	1,383,970	950,556	433,414	3,413,789	3,413,789	2,779,881	633,908
(463,024)	(463,024)	(82,489)	380,535	(922,518)	(922,518)	30,419	952,937
545	545	43	(502)	-	-	-	-
134	134	325	191	-	-	42	42
-	-	1,770	1,770	-	-	-	-
282,711	282,711	155,783	(126,928)	14,838	14,838	1,679	(13,159)
(92,606)	(92,606)	(25,442)	67,164	(59,375)	(59,375)	(28,927)	30,448
190,784	190,784	132,479	(58,305)	(44,537)	(44,537)	(27,206)	17,331
(272,240)	(272,240)	49,990	322,230	(967,055)	(967,055)	3,213	970,268
-	-	201	201	-	-	2	2
-	-	(90)	(90)	-	-	(1)	(1)
-	-	184	184	-	-	-	-
-	-	(22,730)	(22,730)	-	-	-	-
(272,240)	(272,240)	27,555	299,795	(967,055)	(967,055)	3,214	970,269
-	-	1,554,015	1,554,015	-	-	8,958	8,958
-	-	(984)	(984)	-	-	(94)	(94)
-	-	870	870	-	-	-	-
\$ (272,240)	\$ (272,240)	\$ 1,581,456	\$ 1,853,696	\$ (967,055)	\$ (967,055)	\$ 12,078	\$ 979,133

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2017, reverted governmental fund appropriations were as follows: General Fund - \$25.2 million, State Special Revenue Fund - \$242.6 million, and Federal Special Revenue Fund - \$354.0 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information State of Montana as an Employer Entity

Judges' Retirement System Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios¹ For the Fiscal Year Ended June 30 (dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	\$ 1,578	\$ 1,653	\$ 1,594
Interest	3,986	3,934	3,824
Differences between expected and actual experience	(1,341)	(1,032)	-
Benefit payments	(3,416)	(3,041)	(3,023)
Net change in total pension liability	\$ 807	\$ 1,514	\$ 2,395
Total pension liability – beginning	53,146	51,632	49,237
Total pension liability – ending	<u>\$ 53,953</u>	<u>\$ 53,146</u>	<u>\$ 51,632</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 1,806	\$ 1,684	\$ 1,651
Contributions – member	729	534	481
Net investment income	1,779	3,843	12,421
Benefit payments	(3,416)	(3,041)	(3,023)
Administrative expense	(197)	(136)	(100)
Other	(3)	-	-
Net change in plan fiduciary net position	\$ 698	\$ 2,884	\$ 11,430
Plan fiduciary net position - beginning	87,107	84,223	72,793
Plan fiduciary net position - ending	<u>\$ 87,805</u>	<u>\$ 87,107</u>	<u>\$ 84,223</u>
Net Pension (Asset) – Beginning	<u>\$(33,961)</u>	<u>\$(32,591)</u>	<u>\$(23,556)</u>
Net Pension (Asset) – Ending	<u>\$(33,852)</u>	<u>\$(33,961)</u>	<u>\$(32,591)</u>
Plan fiduciary net position as a percentage of TPL	162.74%	163.90%	163.12%
Covered payroll	\$6,920	\$6,525	\$6,355
Net pension (asset) as a percentage of covered payroll	(489)%	(521)%	(513)%

Judges' Retirement System
Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(in thousands)

	2017	2016	2015
Contractually required contributions	\$1,800	\$1,786	\$1,684
Contributions made in relation to the contractually required contributions	1,800	1,786	1,684
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered payroll	\$6,974	\$6,920	\$6,525
Contributions as a percentage of covered payroll	26%	26%	26%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	0 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00%
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	\$ 3,799	\$ 3,598	\$ 3,464
Interest	14,545	14,113	13,518
Changes in benefits	-	1,856	-
Difference between expected and actual experience	18	267	-
Benefit payments	(10,482)	(10,001)	(9,443)
Refunds of contributions	(94)	-	-
Net change in total pension liability	\$ 7,786	\$ 9,833	\$ 7,539
Total pension liability – beginning	192,966	183,133	175,594
Total pension liability – ending	<u>\$200,752</u>	<u>\$192,966</u>	<u>\$183,133</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 5,916	\$ 5,840	\$ 5,736
Contributions – non-employer	243	-	-
Contributions – member	1,917	1,624	1,458
Net investment income	2,605	5,738	18,677
Benefit payments	(10,482)	(10,001)	(9,443)
Administrative expense	(197)	(144)	(109)
Refunds of Contributions	(94)	-	-
Other	(2)	-	-
Net change in plan fiduciary net position	\$ (94)	\$ 3,057	\$ 16,319
Plan fiduciary net position – beginning	129,067	126,010	109,691
Plan fiduciary net position – ending	<u>\$128,973</u>	<u>\$129,067</u>	<u>\$126,010</u>
Net Pension Liability – Beginning	<u>\$ 63,899</u>	<u>\$ 57,123</u>	<u>\$ 65,903</u>
Net Pension Liability – Ending	<u>\$ 71,779</u>	<u>\$ 63,899</u>	<u>\$ 57,123</u>
Plan fiduciary net position as a percentage of TPL	64%	67%	69%
Covered payroll	15,276	\$14,549	\$14,149
Net pension liability as a percentage of covered payroll	470%	439%	404%

**Highway Patrol Officers' Retirement System
Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$5,706	\$6,161	\$5,782
Contributions in relation to the contractually required contributions	5,706	6,161	5,782
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$14,779	\$15,276	\$14,549
Contributions as a percentage of covered payroll	39%	40%	40%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	29 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Inflation	3.00%
Salary increases	4.00% to 11.30%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: The following changes to the assumptions were made as identified:

2015

DROP accounts are assumed to earn the actuarial rate of return

An additional 15% of active members are assumed to elect DROP for each of the first six years following DROP eligibility. These members are assumed to elect to participate in the DROP for five years or until age 60 if earlier.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	\$ 8,403	\$8,008	\$7,850
Interest	12,911	12,398	11,258
Actual experience	2,705	731	-
Benefit payments	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,066)	-	-
Net change in total pension liability	\$ 17,885	\$15,785	\$13,879
Total pension liability – beginning	169,649	153,864	139,985
Total pension liability – ending	<u>\$187,534</u>	<u>\$169,649</u>	<u>\$153,864</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 4,278	\$4,088	\$3,762
Contributions - member	5,036	4,924	4,462
Net investment income	3,167	6,435	20,069
Benefit payments	(5,068)	(5,352)	(5,229)
Administrative expense	(269)	(200)	(162)
Refunds of contributions	(1,066)	-	-
Other	(31)	-	-
Net change in plan fiduciary net position	\$ 6,047	\$9,895	\$22,902
Plan fiduciary net position – beginning	148,638	138,743	115,841
Plan fiduciary net position – ending	<u>\$154,685</u>	<u>\$148,638</u>	<u>\$138,743</u>
Net Pension Liability – Beginning	<u>\$ 21,011</u>	<u>\$15,121</u>	<u>\$24,144</u>
Net Pension Liability – Ending	<u>\$ 32,849</u>	<u>\$21,011</u>	<u>\$15,121</u>
Plan fiduciary net position as a percentage of TPL	82%	87%	90%
Covered payroll	\$47,108	\$44,885	\$41,637
Net pension liability as a percentage of covered payroll	70%	47%	36%

**Game Wardens' and Peace Officers' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$4,447	\$4,240	\$4,040
Contributions in relation to the contractually required contributions	4,447	4,240	4,040
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$49,381	\$47,108	\$44,885
Contributions as a percentage of covered payroll	9%	9%	9%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00% to 11.30%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Employer's proportion of the net pension liability	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	\$906,880	\$749,414	\$663,174
Employer's covered payroll	\$621,755	\$620,286	\$597,083
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	146%	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$56,256	\$59,073	\$58,575
Contributions in relation to the contractually required contributions	56,256	59,073	58,575
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered payroll	\$648,671	\$621,755	\$620,286
Contributions as a percentage of covered payroll	9%	10%	9%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	27.2 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00% to 10.00%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: The following changes have been made to the actuarial assumptions and methods:

2015 Assumptions related to the Guaranteed Annual Benefit Adjustment (GABA) for members hired on or after July 1, 2013, have been added.

**Required Supplementary Information
State of Montana as a Nonemployer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Nonemployer's proportion of the net pension liability	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	\$16,287	\$13,365	\$11,978
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$28,763	\$30,800	\$32,397
Contributions in relation to the contractually required contributions	28,763	30,800	32,397
Contribution deficiency/(excess)	\$ -	\$ -	\$ -

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Employer's proportion of the net pension liability	5.454386%	5.637055%	5.535%
Employer's proportionate share of the net pension liability	\$9,582	\$5,434	\$2,304
Employer's covered payroll	\$3,850	\$3,836	\$3,580
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	249%	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	63%	75%	87%

**Sheriffs' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$368	\$389	\$388
Contributions in relation to the contractually required contributions	368	389	388
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered payroll	\$3,634	\$3,850	\$3,836
Contributions as a percentage of covered payroll	10%	10%	10%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Sheriffs' Retirement System
Notes to Required Supplementary Information
For the Year ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Wage Inflation	4.00%
Salary increases	4.00% to 11.30%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Nonemployer's proportion of the net pension liability	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	\$119,708	\$110,756	\$105,106
Plan fiduciary net position as a percentage of the total pension liability	66%	67%	67%

**Municipal Peace Officers' Retirement System
Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$13,215	\$13,752	\$13,433
Contributions in relation to the contractually required contributions	13,215	13,752	13,433
Contribution deficiency/(excess)	\$ -	\$ -	\$ -

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Municipal Peace Officers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Employer's proportion of the net pension liability	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	\$2,583	\$2,454	\$1,806
Employer's covered payroll	\$974	\$986	\$735
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	265%	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	75%	77%	77%

**Firefighters' Unified Retirement System
Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$472	\$475	\$142
Contributions in relation to the contractually required contributions	472	475	142
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered payroll	\$1,022	\$974	\$986
Contributions as a percentage of covered payroll	46%	49%	14%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	10 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Inflation	3.00%
Salary increases	4.00% to 11.30%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	\$77,448	\$68,892	\$66,384
Plan fiduciary net position as a percentage of the total pension liability	75%	77%	77%

**Firefighters' Unified Retirement System
Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$14,042	\$13,635	\$13,573
Contributions in relation to the contractually required contributions	14,042	13,635	13,573
Contribution deficiency/(excess)	\$ -	\$ -	\$ -

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nonemployer's proportion of the net pension liability	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	\$10,599	\$10,504	\$5,089
Plan fiduciary net position as a percentage of the total pension liability	76%	76%	87%

Volunteer Firefighters' Compensation Act
Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$2,054	\$2,024	\$1,913
Contributions in relation to the contractually required contributions	2,054	2,024	1,913
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Volunteer Firefighters' Compensation Act
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Employer's proportion of the net pension liability	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	\$57,016	\$56,230	\$72,168
Employer's covered payroll	\$28,915	\$31,252	\$32,937
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	197%	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

**Teachers' Retirement System
Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$17,396	\$16,946	\$16,234
Contributions in relation to the contractually required contributions	17,396	16,946	16,234
Contribution deficiency/(excess)	\$ -	\$ -	\$ -
Covered payroll	\$26,944	\$28,915	\$31,252
Contributions as a percentage of covered payroll	65%	58%	52%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Changes of assumptions: The following changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Nonemployer's proportion of the net pension liability	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	\$707,527	\$647,092	\$596,724
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

**Teachers' Retirement System
Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2017	2016	2015
Contractually required contributions	\$43,028	\$42,400	\$42,806
Contributions in relation to the contractually required contributions	43,028	42,400	42,806
Contribution deficiency/(excess)	\$ -	\$ -	\$ -

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a \$25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an “implied rate” subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

In accordance with GASB Statement No. 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

Other Postemployment Benefits Plan Information Schedule of Funding Progress (in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
State Agent Multiple Employer Plan						
1/1/2011	\$ -	\$337,274	\$337,274	0.00%	\$521,881	64.63%
1/1/2013	\$ -	\$366,739	\$366,739	0.00%	\$616,158	59.52%
1/1/2015	\$ -	\$347,935	\$347,935	0.00%	\$645,888	53.87%
MUS Agent Multiple Employer Plan						
7/1/2011	\$ -	\$191,017	\$191,017	0.00%	\$371,802	51.38%
7/1/2013	\$ -	\$114,498	\$114,498	0.00%	\$400,017	28.62%
7/1/2015	\$ -	\$110,494	\$110,494	0.00%	\$416,565	26.53%

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

[illegible]

**Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1. Premiums and investment Revenue	\$100,693	\$84,297	\$80,764	\$79,257	\$76,505	\$75,911	\$73,078	\$62,851	\$59,573	\$62,497
2. Unallocated expenses including overhead	\$ 5,196	\$ 5,129	\$ 5,198	\$ 4,787	\$ 3,938	\$ 4,063	\$ 4,663	\$ 3,629	\$ 3,123	\$ 2,904
3. Estimated losses and expenses end of accident year	\$ 85,802	\$87,233	\$87,353	\$71,877	\$69,325	\$64,331	\$64,919	\$65,575	\$60,928	\$55,474
4. Net paid (cumulative) as of:										
End of policy year	\$ 68,432	\$68,968	\$72,065	\$57,257	\$56,383	\$51,640	\$51,606	\$52,860	\$48,459	\$44,117
One year later		79,441	82,602	63,914	63,200	58,286	58,713	62,116	55,438	51,143
Two years later			82,920	63,915	63,236	58,316	58,756	62,148	55,494	51,199
Three years later				63,915	63,236	58,324	58,756	62,166	55,495	51,212
Four years later					63,236	58,324	58,756	62,167	55,495	51,213
Five years later						58,324	58,756	62,168	55,495	51,213
Six years later							58,756	62,168	55,495	51,213
Seven years later								62,168	55,495	51,213
Eight years later									55,495	51,213
Nine years later										51,213
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 85,802	\$87,233	\$87,353	\$71,877	\$69,325	\$64,331	\$64,919	\$65,575	\$60,928	\$55,474
One year later		89,418	71,718	69,106	63,446	63,941	67,006	60,208	55,319	53,660
Two years later			82,921	63,915	63,236	58,316	58,756	62,148	55,494	51,199
Three years later				63,915	63,236	58,324	58,756	62,166	55,495	51,212
Four years later					63,236	58,324	58,756	62,167	55,495	51,213
Five years later						58,324	58,756	62,168	55,495	51,213
Six years later							58,756	62,168	55,495	51,213
Seven years later								62,168	55,495	51,213
Eight years later									55,495	51,213
Nine years later										51,213
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ -	\$ 2,185	\$ 4,432	\$ 7,962	\$ 6,089	\$ 6,008	\$ 6,163	\$ 3,407	\$ 5,433	\$ 4,261

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.003	State Commissions		\$233,501
94.006	AmeriCorps	\$3,231,497	\$3,501,613
94.009	Training and Technical Assistance		\$66,018
94.013	Volunteers in Service to America		\$601,605
		TOTAL	\$4,402,737
CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL			
			\$4,402,737
DEPARTMENT OF AGRICULTURE			
10.001	Agricultural Research_Basic and Applied Research South Dakota State University 3TG612		\$713
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$45,000	\$1,067,991
10.093	Voluntary Public Access and Habitat Incentive Program		\$72,570
10.162	Inspection Grading and Standardization		\$22,767
10.163	Market Protection and Promotion		\$156,347
10.170	Specialty Crop Block Grant Program - Farm Bill		\$1,064,553
10.227	1994 Institutions Research Program Fort Belknap College 2002-38424-12433	\$370,549	
10.310	Agriculture and Food Research Initiative (AFRI)		\$360
10.433	Rural Housing Preservation Grants	\$36,241	\$73,508
10.435	State Mediation Grants		\$43,822
10.460	Risk Management Education Partnerships		\$14,939
10.464	Socially Disadvantaged Farmers and Ranchers Policy Research Center Fort Peck Community College VINCE SMITH		\$74,094
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		\$12,697
10.500	Cooperative Extension Service Kansas State University S17157	\$24,249	\$828,155
	Kansas State University S16129		\$3,160,970
	Kansas State University S17115		\$5,545
	Kansas State University S16083		\$4,119
	University of Missouri C00051968-6		\$21,050
10.547	Professional Standards for School Nutrition Employees		\$929
			\$3,584
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$4,473,173	\$3,604
10.558	Child and Adult Care Food Program	\$672,134	\$14,979,332
10.560	State Administrative Expenses for Child Nutrition		\$11,838,556
			\$636,753

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
10.567	Food Distribution Program on Indian Reservations	\$1,705,046	\$5,655,243
10.572	WIC Farmers' Market Nutrition Program (FMNP)	\$650	\$48,561
10.574	Team Nutrition Grants		\$382,014
10.575	Farm to School Grant Program		\$18,610
10.576	Senior Farmers Market Nutrition Program	\$87,190	\$92,242
10.578	WIC Grants To States (WGS)	\$303,976	\$1,060,150
10.579	Child Nutrition Discretionary Grants Limited Availability	\$60,926	\$973,315
10.582	Fresh Fruit and Vegetable Program	\$1,814,026	\$1,894,136
10.601	Market Access Program		
	United States Livestock Genetics Export MT DOA 2017		\$33,999
	Western United States Agricultural Trade Association MT 2017		\$6,426
10.652	Forestry Research		\$624,981
10.664	Cooperative Forestry Assistance	\$30,365	
10.669	Cooperative Landscape Conservation	\$2,330,608	\$4,569,039
10.674	Wood Utilization Assistance		\$2,298
10.676	Forest Legacy Program	\$5,750	\$12,671
10.680	Forest Health Protection		\$6,511,925
10.683	National Fish and Wildlife Foundation	\$108,536	\$156,362
	National Fish and Wildlife Foundation 49786		
10.699	Partnership Agreements		\$27,527
10.902	Soil and Water Conservation		\$90,380
10.912	Environmental Quality Incentives Program	\$14,465	\$133,838
	Adams Ranch 2014 MOU		\$77,796
	Mark Machler 2014 MOU		\$290,456
10.UXX	Miscellaneous Non-Major Grants		\$343,894
	TOTAL		\$57,092,821
Child Nutrition Cluster			
10.553	School Breakfast Program	\$9,753,320	\$9,843,752
10.555	National School Lunch Program	\$32,257,838	\$32,457,252
10.556	Special Milk Program for Children	\$13,010	\$13,010
10.559	Summer Food Service Program for Children	\$2,021,651	\$2,098,469
	TOTAL		\$44,412,483
Food Distribution Cluster			
10.565	Commodity Supplemental Food Program		\$2,031,185
10.568	Emergency Food Assistance Program (Administrative Costs)	\$57,231	\$203,892

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
10.569	Emergency Food Assistance Program (Food Commodities)		\$1,585,671
	Forest Service Schools and Roads Cluster	TOTAL	\$3,820,748
10.665	Schools and Roads - Grants to States	\$2,282,242	\$2,282,242
	SNAP Cluster	TOTAL	\$2,282,242
10.551	Supplemental Nutrition Assistance Program		\$171,144,221
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$168,338	\$12,281,473
	TOTAL		\$183,425,694
	DEPARTMENT OF AGRICULTURE TOTAL		\$291,033,988
	DEPARTMENT OF COMMERCE		
11.303	Economic Development_Technical Assistance		\$2,374
11.550	Public Telecommunications Facilities Planning and Construction		
	Corporation for Public Broadcasting 1492		\$247,241
11.611	Manufacturing Extension Partnership		\$556,399
11.620	Science, Technology, Business and/or Education Outreach		\$104,064
	TOTAL		\$910,078
	Economic Development Cluster		
11.307	Economic Adjustment Assistance		\$382,846
11.307	Economic Adjustment Assistance		\$2,794,264
	TOTAL		\$3,177,110
	DEPARTMENT OF COMMERCE TOTAL		\$4,087,188
	DEPARTMENT OF DEFENSE		
12.002	Procurement Technical Assistance For Business Firms		
	Big Sky Economic Development Authority SP4800-15-2-1522 OPTION YEAR		\$1,132
	Big Sky Economic Development Corporation SP4800-16-2-1622		\$61,176
	Big Sky Economic Development Corporation SP4800-15-2-1522		\$5,793
12.110	Planning Assistance to States		\$399,642
12.112	Payments to States in Lieu of Real Estate Taxes		\$6,658
12.127	Southern and Eastern KY Environmental Infrastructure (Section 531) - ARRA	\$6,658	\$28,709
12.357	ROTC Language and Culture Training Grants		
	Institute of International Education 2603-UMT-5-GO-017-P03		\$73,750
	Institute of International Education 2603-UMT-5-GO-051-POS		\$200,402

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
12.400	Military Construction, National Guard		\$14,838,461
12.401	National Guard Military Operations and Maintenance (O&M) Projects		\$21,395,259
12.404	National Guard ChalleNGe Program		\$4,050,075
12.579	Language Training Center		
	Institute of International Education	2603-UMT-5-LTC-LT4-PO2	(\$2,583)
	Institute of International Education	2013-LTC-MONTANA	\$1,299
	Institute of International Education	2603-UMT-5-LTC-LT5-PO4	\$1,109,000
	Institute of International Education	2603-UMT-5-LTC-052-PO6	\$1,468,204
	Institute of International Education	2603-UMT-LTC-LT4-PO2	\$244,789
12.620	Troops to Teachers Grant Program		\$222,354
12.900	Language Grant Program		\$37,447
12.901	Mathematical Sciences Grants Program		
	National Security Agency	H98230-17-1-0299	\$1,119
12.UXX	Miscellaneous Non-Major Grants		\$303,448
		TOTAL	\$44,446,134
		DEPARTMENT OF DEFENSE TOTAL	\$44,446,134
DEPARTMENT OF EDUCATION			
84.002	Adult Education - Basic Grants to States	\$958,508	\$1,226,993
84.010	Title I Grants to Local Educational Agencies	\$42,739,494	\$44,106,800
84.011	Migrant Education_State Grant Program	\$867,499	\$979,938
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth		\$123,437
84.031	Higher Education_Institutional Aid		\$448,737
84.032	Federal Family Education Loans		\$72,030,287
84.048	Career and Technical Education -- Basic Grants to States	\$2,941,089	\$4,949,053
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	\$31,138	\$12,580,107
84.144	Migrant Education_Coordination Program		\$45,957
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind		\$197,598
84.181	Special Education-Grants for Infants and Families		\$2,277,322
84.184	Safe and Drug-Free Schools and Communities_National Programs		\$738,189
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		\$260,258
84.196	Education for Homeless Children and Youth	\$120,417	\$180,045
84.287	Twenty-First Century Community Learning Centers	\$5,431,073	\$5,724,109
84.299	Indian Education -- Special Programs for Indian Children		
	Blackfeet Community College	S299B160026	\$81,905

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
84.323	Special Education - State Personnel Development	\$40,639	\$837,228
84.324	Research in Special Education		
	University of California, Davis 201500425-03		\$8,097
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		\$180,616
	University of Florida H325A120003		\$25,989
84.326	Special Education_ Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		\$130,137
	California State University, Northridge F-11-2963-3-UMT		\$328,417
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)		\$19,297
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	\$1,817,813	\$3,677,621
84.335	Child Care Access Means Parents in School		\$37,607
84.358	Rural Education	\$494,998	\$517,769
84.365	English Language Acquisition State Grants	\$325,527	\$674,783
84.366	Mathematics and Science Partnerships	\$394,238	\$558,218
	Bozeman Public Schools 16 0350 1513 MSP		\$20,210
84.367	Improving Teacher Quality State Grants	\$11,193,040	\$11,677,331
	National Writing Project U367D150004		\$11,780
	University of California National Writing Project 93-MT01-SEED2012		(\$550)
	University of California National Writing Project 93-MT01-SEED2017-ILI		\$15,669
84.369	Grants for State Assessments and Related Activities		\$3,893,087
84.371	Striving Readers	\$1,924,569	\$1,951,847
84.372	Statewide Longitudinal Data Systems		\$575,628
84.377	School Improvement Grants		\$1,053,707
84.418	Promoting Readiness of Minors in Supplemental Security Income		
	State of Utah Contract REF# 146214		\$431,859
	University of Utah 10033712		\$81,818
84.419	Preschool Development Grants		
84.998	American Printing House for the Blind	\$7,518,597	\$9,763,020
84.UXX	Miscellaneous Non-Major Grants		\$6,887
		TOTAL	\$182,536,621
Special Education Cluster (IDEA)			
84.027	Special Education_Grants to States	\$33,578,912	\$37,562,216
	Missoula Area Education Cooperative IDEA #9698		\$75,745

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Amount to Subrecipients	Expenditures
84.173 Special Education_Preschool Grants	\$1,178,391	\$1,181,367
	TOTAL	\$38,819,328
Student Financial Assistance Cluster		
84.007 Federal Supplemental Educational Opportunity Grants		\$1,350,227
84.033 Federal Work-Study Program		\$2,266,664
84.038 Federal Perkins Loan Program - Federal Capital Contributions		\$36,718,849
84.063 Federal Pell Grant Program		\$46,861,495
84.268 Federal Direct Student Loans		\$178,026,666
84.379 Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		\$5,122
	TOTAL	\$265,229,023
TRIO Cluster		
84.042 TRIO_Student Support Services		\$1,911,802
84.044 TRIO_Talent Search		\$1,087,412
84.047 TRIO_Upward Bound		\$1,301,124
84.066 TRIO_Educational Opportunity Centers		\$517,453
84.217 TRIO_McNair Post-Baccalaureate Achievement		\$205,290
	TOTAL	\$5,023,081
	DEPARTMENT OF EDUCATION TOTAL	\$491,608,053
DEPARTMENT OF ENERGY		
81.041 State Energy Program		\$335,245
81.042 Weatherization Assistance for Low-Income Persons		\$2,776,037
81.086 Conservation Research and Development		\$367,128
81.117 Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance		\$34,972
Washington State University 121240_G003325		\$37,800
81.119 State Energy Program Special Projects		\$4,642
81.138 State Heating Oil and Propane Program		\$12,515
81.UXX Miscellaneous Non-Major Grants		(\$2,169)
National Fish and Wildlife Foundation 0201.17.053086		\$41,261
	TOTAL	\$3,607,431
	DEPARTMENT OF ENERGY TOTAL	\$3,607,431

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.041	Special Programs for the Aging_ Title VII, Chapter 3_ Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$14,956	\$14,956
93.042	Special Programs for the Aging_ Title VII, Chapter 2_ Long Term Care Ombudsman Services for Older Individuals	\$63,598	\$63,598
93.043	Special Programs for the Aging_ Title III, Part D_ Disease Prevention and Health Promotion Services	\$78,518	\$78,518
93.052	National Family Caregiver Support, Title III, Part E	\$707,784	\$762,136
93.058	Food and Drug Administration_ Research	\$180,205	\$180,889
93.070	Environmental Public Health and Emergency Response	\$114,738	\$491,543
93.071	Medicare Enrollment Assistance Program	\$164,080	\$170,297
93.072	Lifespan Respite Care Program	\$54,806	\$77,219
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	\$2,981,487	\$5,583,375
93.090	Guardianship Assistance		\$1,313,455
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	\$189,650	\$279,455
93.103	Food and Drug Administration_ Research		\$91,888
93.110	Maternal and Child Health Federal Consolidated Programs		\$181,371
	Utah State University PO338876-E REV 2		\$2,960
	Utah State University PO298694		\$1,203
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		\$192,044
93.127	Emergency Medical Services for Children	\$66,426	\$358,457
93.129	Technical and Non-Financial Assistance to Health Centers		
	Montana Primary Care Association MPCA PRIMARY CARE WORKFORCE PR		\$31,579
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	\$37,090	\$202,113
93.136	Injury Prevention and Control Research and State and Community Based Programs		\$187,213
93.150	Projects for Assistance in Transition from Homelessness (PATH)	\$255,630	\$265,602
93.155	Rural Health Research Centers		
	National Rural Health Association 2017 SRHA TECHNICAL ASSISTANCE		\$3,839
	National Rural Health Association 2015 SRHA TECH ASSIST AWARD		\$4,737
93.157	Centers of Excellence		\$482,229
93.165	Grants to States for Loan Repayment Program	\$140,049	\$140,049
93.184	Disabilities Prevention	\$248,110	\$299,118
93.217	Family Planning_ Services	\$1,722,514	\$2,128,645
93.236	Grants to States to Support Oral Health Workforce Activities	\$315,634	\$435,202

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
93.240	State Capacity Building		\$4,132
93.241	State Rural Hospital Flexibility Program	\$566,224	\$726,750
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	\$3,716,857	\$6,762,854
93.251	Universal Newborn Hearing Screening		\$234,279
93.262	Occupational Safety and Health Program	\$3,531	\$53,797
	Utah State University 200644-00001-291		\$20,556
93.268	Immunization Cooperative Agreements	\$338,679	\$12,174,834
93.270	Adult Viral Hepatitis Prevention and Control		\$37,073
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance		\$16,671
93.300	National Center for Health Workforce Analysis		\$2,278
93.305	National State Based Tobacco Control Programs		\$879,195
93.307	Minority Health and Health Disparities Research		\$9,799,388
93.314	Early Hearing Detection and Intervention Information System (EHDH-IS) Surveillance Program		\$153,825
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		\$1,327,743
93.324	State Health Insurance Assistance Program	\$430,949	\$618,377
93.336	Behavioral Risk Factor Surveillance System		\$275,226
93.358	Advanced Education Nursing Traineeships		\$3,665
93.369	ACL Independent Living State Grants		\$276,253
93.448	Food Safety and Security Monitoring Project		\$114,656
93.449	Ruminant Feed Ban Support Project		\$23,254
93.464	ACL Assistive Technology	\$60,000	\$573,560
93.500	Pregnancy Assistance Fund Program	\$867,895	\$1,094,164
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program TEAM for West Virginia Children	\$740,822	\$851,996
93.516	Affordable Care Act (ACA) Public Health Training Centers Program University of Colorado 1000587203		\$62,469
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	\$50,502	\$59,924
	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF		\$51,419
93.521	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project		\$795,210
93.536	Promoting Safe and Stable Families	\$439,857	\$13,014
93.556	Child Support Enforcement		\$651,119
93.563	Refugee and Entrant Assistance_State Administered Programs	\$144,743	\$11,334,694
93.566	Low-Income Home Energy Assistance	\$1,022,444	\$171,253
93.568			\$18,333,694

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
93.569	Community Services Block Grant		\$3,532,982
93.586	State Court Improvement Program	\$10,900	\$217,554
93.590	Community-Based Child Abuse Prevention Grants	\$125,722	\$204,213
93.597	Grants to States for Access and Visitation Programs	\$100,420	\$101,728
93.599	Chafee Education and Training Vouchers Program (ETV)	\$208,684	\$210,488
93.600	Head Start		\$133,380
93.603	Adoption and Legal Guardianship Incentive Payments		\$80,683
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance		\$113
93.630	Developmental Disabilities Basic Support and Advocacy Grants	\$687,495	\$687,495
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service		\$580,184
93.643	Children's Justice Grants to States		\$98,208
93.645	Stephanie Tubbs Jones Child Welfare Services Program		\$721,319
93.652	Adoption Opportunities	\$35,500	\$220,773
93.658	Foster Care_ Title IV-E	\$3,872,627	\$18,362,700
93.659	Adoption Assistance		\$9,065,233
93.667	Social Services Block Grant		\$7,022,359
93.669	Child Abuse and Neglect State Grants		\$158,203
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	\$812,482	\$818,047
93.674	Chafee Foster Care Independence Program	\$742,616	\$786,611
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)		\$319,439
93.747	Elder Abuse Prevention Interventions Program		\$4,535
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	\$895,518	\$2,612,726
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)		\$1,240,278
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	\$338,794	\$891,441
93.767	Children's Health Insurance Program		\$100,240,658
93.791	Money Follows the Person Rebalancing Demonstration		\$2,245,202
93.800	Organized Approaches to Increase Colorectal Cancer Screening	\$529,447	\$670,308
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).		\$400,520
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	\$11,000	\$618,212
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	\$1,609,351	\$1,905,104
93.884	Grants for Primary Care Training and Enhancement	\$60,374	\$364,494
	University of Pikeville 16-001		\$52,529

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Amount to Subrecipients	Expenditures
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program Barrett Hospital 1DO6RH27763-01-00 Madison Valley Medical Center 14-01	\$21,588 \$186,198 \$18,708 \$2 (\$69)
93.913	Grants to States for Operation of Offices of Rural Health	
93.917	HIV Care Formula Grants	\$90,855
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	\$75,354
93.940	HIV Prevention Activities_Health Department Based	
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance Association of University Centers on Disabilities AWARD LETTER Association of University Centers on Disabilities AWARD LETTER	\$780,464 \$138,378 \$500 \$4,557
93.945	Assistance Programs for Chronic Disease Prevention and Control	\$2,691,021
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	\$198,347
93.958	Block Grants for Community Mental Health Services	\$1,151,936
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$5,148,305
93.969	PPHF Geriatric Education Centers	\$785,113
93.970	Health Professions Recruitment Program for Indians	\$151,717
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	\$242,260
93.994	Maternal and Child Health Services Block Grant to the States	\$2,564,149
	TOTAL	\$252,031,919
Aging Cluster		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	\$1,493,912
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	\$2,868,076
93.053	Nutrition Services Incentive Program	\$829,102
	TOTAL	\$6,444,786
CCDF Cluster		
93.575	Child Care and Development Block Grant	\$7,270,225
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$16,605,640 \$8,820,756
	TOTAL	\$25,426,396
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	\$570,281
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	\$2,629,435

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
93.778	Medical Assistance Program	\$5,127,336	\$1,412,833,007
		TOTAL	\$1,416,032,723
Student Financial Assistance Cluster			
93.264	Nurse Faculty Loan Program (NFLP)		\$21,729
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students		\$199,042
93.364	Nursing Student Loans		\$2,709,657
		TOTAL	\$2,930,428
TANF Cluster			
93.558	Temporary Assistance for Needy Families	\$3,281,235	\$35,901,626
		TOTAL	\$35,901,626
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$1,738,767,878
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$6,171,933	\$6,581,457
14.231	Emergency Solutions Grant Program		\$690,238
14.235	Supportive Housing Program		\$7,972
14.238	Shelter Plus Care		\$241,923
14.239	Home Investment Partnerships Program	\$7,093,158	\$7,348,485
14.241	Housing Opportunities for Persons with AIDS		\$861,900
14.251	Economic Development Initiative - Special Project		\$279,248
14.326	Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities		\$105,962
14.877	Public Housing Family Self-Sufficiency Under Resident Opportunity and Supportive Services		
	Missoula Housing Authority 2012-FSSR-MT033-15191		\$11,501
		TOTAL	\$16,128,686
Housing Voucher Cluster			
14.871	Section 8 Housing Choice Vouchers		\$23,592,132
		TOTAL	\$23,592,132
Section 8 Project-Based Cluster			
14.195	Section 8 Housing Assistance Payments Program		\$21,112,537
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation		\$1,829,615
		TOTAL	\$22,942,152
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL		\$62,662,970

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	\$279,918	\$295,091
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	\$3,819	\$48,105
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	\$315,174	\$377,756
16.550	State Justice Statistics Program for Statistical Analysis Centers		\$235,345
16.554	National Criminal History Improvement Program (NCHIP)		\$1,603,626
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants Bozeman Public Schools 2014-MU-0017 (UM #1)		\$247,320
16.575	Crime Victim Assistance	\$3,296,181	\$3,520,699
16.576	Crime Victim Compensation		\$309,060
16.582	Crime Victim Assistance/Discretionary Grants	\$151,390	\$598,704
16.585	Drug Court Discretionary Grant Program		\$415,885
16.588	Violence Against Women Formula Grants	\$785,810	\$994,900
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program Missoula County 2015-WR-AX-0013		\$11,922
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		\$206,556
16.593	Residential Substance Abuse Treatment for State Prisoners	\$45,572	\$53,315
16.606	State Criminal Alien Assistance Program		\$32,845
16.726	Juvenile Mentoring Program National 4-H Council 4-H UNDER OJJDP 2016-JU-FX-002 National 4-H Council 4-H UNDER OJJDP 2015-JU-FX-001		\$38,214 \$103,384
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities		\$141,595
16.738	Edward Byrne Memorial Justice Assistance Grant Program	\$677,056	\$920,552
16.741	DNA Backlog Reduction Program		\$156,852
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		\$19,307
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	\$20,955	\$20,955
16.751	Edward Byrne Memorial Competitive Grant Program		\$44,191
16.754	Harold Rogers Prescription Drug Monitoring Program		\$217,920
16.812	Second Chance Act Reentry Initiative		\$18,518
16.818	Children Exposed to Violence	\$27,118	\$135,027
16.833	National Sexual Assault Kit Initiative		\$59,345
	TOTAL		\$10,826,989
	DEPARTMENT OF JUSTICE TOTAL		\$10,826,989

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Amount to Subrecipients	Expenditures
DEPARTMENT OF LABOR		
17.002 Labor Force Statistics		\$660,772
17.005 Compensation and Working Conditions		\$90,030
17.201 Registered Apprenticeship		\$82,713
17.225 Unemployment Insurance		\$127,705,671
17.235 Senior Community Service Employment Program	\$498,428	\$520,130
17.245 Trade Adjustment Assistance		\$134,357
17.268 H-1B Job Training Grants		
Northern Wyoming Community College	HG-30137-17-60-A-56	\$887
17.271 Work Opportunity Tax Credit Program (WOTC)		\$66,000
17.273 Temporary Labor Certification for Foreign Workers		\$243,394
17.277 WIOA National Dislocated Worker Grants / WIA National Emergency Grants		\$1,039,449
17.282 Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	\$614,474	\$8,331,857
17.285 Apprenticeship USA Grants		\$216,427
17.504 Consultation Agreements		\$342,607
17.600 Mine Health and Safety Grants		\$205,740
	TOTAL	\$139,640,034
Employment Service Cluster		
17.207 Employment Service/Wagner-Peyser Funded Activities		\$5,186,978
17.801 Disabled Veterans' Outreach Program (DVOP)		\$576,304
17.804 Local Veterans' Employment Representative Program		\$21,816
	TOTAL	\$5,785,098
WIA/WIOA Cluster		
17.258 WIA/WIOA Adult Program	\$420,371	\$2,026,753
17.259 WIA/WIOA Youth Activities	\$1,506,542	\$2,245,809
17.278 WIA/WIOA Dislocated Worker Formula Grants	\$1,088	\$1,525,874
	TOTAL	\$5,798,436
	DEPARTMENT OF LABOR TOTAL	\$151,223,568
DEPARTMENT OF STATE		
19.009 Academic Exchange Programs - Undergraduate Programs		\$471,517
19.010 Academic Exchange Programs - Hubert H. Humphrey Fellowship Program		
Institute of International Education	IIIE0138-MONTANA-1.1.17	\$41,271
Institute of International Education	S-ECAGD-16-CA-1014	\$92,960
19.040 Public Diplomacy Programs		\$16,971

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
19.401	Academic Exchange Programs - Scholars		\$94,806
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	\$69,441	\$750,523
		TOTAL	\$1,468,048
		DEPARTMENT OF STATE TOTAL	\$1,468,048
DEPARTMENT OF THE INTERIOR			
15.022	Tribal Self-Governance		
	Chippewa Cree Tribe PSA AGREEMENT		\$9,198
15.025	Services to Indian Children, Elderly and Families		\$39,164
15.034	Agriculture on Indian Lands		
	Fort Belknap Community Council A10AV00583		\$57,696
15.224	Cultural and Paleontological Resources Management		\$57,768
15.225	Recreation Resource Management		\$20,325
15.230	Invasive and Noxious Plant Management		\$7,156
15.231	Fish, Wildlife and Plant Conservation Resource Management		\$109,179
	National Fish and Wildlife Foundation 45527		\$85,000
15.236	Environmental Quality and Protection Resource Management		\$560,722
15.238	Challenge Cost Share		\$22,649
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$2,554,920
15.252	Abandoned Mine Land Reclamation (AMLRL) Program		\$4,086,989
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination		\$476,119
15.514	Reclamation States Emergency Drought Relief		\$39,989
15.517	Fish and Wildlife Coordination Act		\$92,019
15.531	Yakima River Basin Water Enhancement Project (YRBWEP)		\$198,914
15.554	Cooperative Watershed Management Program		\$32,833
15.608	Fish and Wildlife Management Assistance		\$110,498
15.615	Cooperative Endangered Species Conservation Fund		\$2,111,553
15.634	State Wildlife Grants	\$20,000	\$954,720
15.657	Endangered Species Conservation - Recovery Implementation Funds		\$108,601
15.663	National Fish and Wildlife Foundation		
	National Fish and Wildlife Foundation 45527		\$31,802
15.664	Fish and Wildlife Coordination and Assistance Programs		\$24,162
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	\$96,113	\$141,113
15.808	U.S. Geological Survey_ Research and Data Collection		\$2,075
15.904	Historic Preservation Fund Grants-In-Aid	\$80,000	\$902,546

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
15.916	Outdoor Recreation_Acquisition, Development and Planning	\$58,414	\$58,414
15.944	Natural Resource Stewardship		\$11,919
15.945	Cooperative Research and Training Programs - Resources of the National Park System		\$22,800
15.954	National Park Service Conservation, Protection, Outreach, and Education		\$19,114
15.981	Water Use and Data Research		\$9,481
	TOTAL		\$12,959,438
Fish and Wildlife Cluster			
15.605	Sport Fish Restoration Program		\$10,519,621
15.611	Wildlife Restoration and Basic Hunter Education	\$6,656	\$21,350,723
	TOTAL		\$31,870,344
	DEPARTMENT OF THE INTERIOR TOTAL		\$44,829,782
DEPARTMENT OF TRANSPORTATION			
20.106	Airport Improvement Program		\$5,870,832
20.200	Highway Research and Development Program	\$40,130	\$149,828
20.218	National Motor Carrier Safety		\$1,776,391
20.232	Commercial Driver's License Program Improvement Grant		\$26,476
20.233	Border Enforcement Grants		\$692,236
20.237	Commercial Vehicle Information Systems and Networks		\$152,412
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	\$368,658	\$518,371
20.509	Formula Grants for Rural Areas	\$8,852,787	\$9,958,636
20.515	State Planning and Research	(\$4,360)	(\$4,360)
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	\$302,167	\$1,374,228
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		\$75,399
20.700	Pipeline Safety Program State Base Grant		\$147,526
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	\$55,719	\$124,934
	TOTAL		\$20,862,909
Federal Transit Cluster			
20.526	Bus and Bus Facilities Formula Program	\$1,684,441	\$1,684,441
	TOTAL		\$1,684,441
Highway Planning and Construction Cluster			
20.205	Highway Planning and Construction	\$8,871,994	\$395,644,630
20.219	Recreational Trails Program	\$1,103,802	\$1,220,161
	TOTAL		\$396,864,791

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Amount to Subrecipients	Expenditures
<i>Highway Safety Cluster</i>		
20.600 State and Community Highway Safety	\$346,834	\$1,939,829
20.616 National Priority Safety Programs	\$175,479	\$773,290
	TOTAL	\$2,713,119
<i>Transit Services Programs Cluster</i>		
20.513 Enhanced Mobility of Seniors and Individuals with Disabilities	\$212,680	\$305,890
20.521 New Freedom Program	\$9,929	\$10,900
	TOTAL	\$316,790
	DEPARTMENT OF TRANSPORTATION TOTAL	\$422,442,050
DEPARTMENT OF TREASURY		
21.UXX Miscellaneous Non-Major Grants		\$1,643
	TOTAL	\$1,643
	DEPARTMENT OF TREASURY TOTAL	\$1,643
DEPARTMENT OF VETERANS AFFAIRS		
64.014 Veterans State Domiciliary Care		\$164,386
64.015 Veterans State Nursing Home Care		\$6,686,320
64.124 All-Volunteer Force Educational Assistance		\$85,133
	TOTAL	\$6,935,839
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	\$6,935,839
ENVIRONMENTAL PROTECTION AGENCY		
66.040 State Clean Diesel Grant Program		\$194,251
66.202 Congressionally Mandated Projects		\$554
66.204 Multipurpose Grants to States and Tribes		\$115,197
66.419 Water Pollution Control State, Interstate, and Tribal Program Support		\$5,848
66.433 State Underground Water Source Protection		\$105,676
66.454 Water Quality Management Planning		\$88,683
66.460 Nonpoint Source Implementation Grants		\$1,195,835
Soil and Water Conservation Districts of Montana C9-99833615		\$326
66.461 Regional Wetland Program Development Grants		\$125,675
66.514 Science To Achieve Results (STAR) Fellowship Program		\$11,925
66.605 Performance Partnership Grants		\$6,800,700
66.608 Environmental Information Exchange Network Grant Program and Related Assistance		\$211,141

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Amount to Subrecipients	Expenditures
66.708 Pollution Prevention Grants Program		\$227,077
66.802 Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		\$2,015,584
66.804 Underground Storage Tank Prevention, Detection and Compliance Program		\$394,946
66.805 Leaking Underground Storage Tank Trust Fund Corrective Action Program		\$715,037
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements		\$176,626
66.817 State and Tribal Response Program Grants		\$611,042
66.951 Environmental Education Grants	\$30,498	\$181,985
	TOTAL	\$13,178,108
<i>Clean Water State Revolving Fund Cluster</i>		
66.458 Capitalization Grants for Clean Water State Revolving Funds		\$275,145,766
	TOTAL	\$275,145,766
<i>Drinking Water State Revolving Fund Cluster</i>		
66.468 Capitalization Grants for Drinking Water State Revolving Funds		\$138,876,660
	TOTAL	\$138,876,660
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	\$427,200,534
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.001 Employment Discrimination_Title VII of the Civil Rights Act of 1964		\$205,461
	TOTAL	\$205,461
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	\$205,461
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001 High Intensity Drug Trafficking Areas Program		\$14,353
	TOTAL	\$14,353
	EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	\$14,353
GENERAL SERVICES ADMINISTRATION		
39.003 Donation of Federal Surplus Personal Property		\$154,063
39.011 Election Reform Payments		\$88,452
	TOTAL	\$242,515
	GENERAL SERVICES ADMINISTRATION TOTAL	\$242,515
DEPARTMENT OF HOMELAND SECURITY		
97.007 Homeland Security Preparedness Technical Assistance Program		\$7,561

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
97.012	Boating Safety Financial Assistance		\$529,170
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		\$247,027
97.029	Flood Mitigation Assistance	\$21,500	\$164,273
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$9,320,366	\$9,610,576
97.039	Hazard Mitigation Grant	\$2,253,589	\$2,255,547
97.041	National Dam Safety Program		\$222,743
97.042	Emergency Management Performance Grants	\$1,869,573	\$2,950,685
97.043	State Fire Training Systems Grants		\$7,560
97.044	Assistance to Firefighters Grant		\$123,691
97.045	Cooperating Technical Partners	\$363,141	\$1,248,129
97.047	Pre-Disaster Mitigation		\$586,887
97.067	Homeland Security Grant Program	\$3,190,554	\$4,152,634
	Kalispell Police Department 14-SPWSPW-09-003		\$7,324
		TOTAL	\$22,113,807
		DEPARTMENT OF HOMELAND SECURITY TOTAL	\$22,113,807
		TOTAL	\$11,020
		LIBRARY OF CONGRESS TOTAL	\$11,020
			\$80,425
			\$143,762
		TOTAL	\$1,977
			\$226,164
		NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	\$226,164
			\$10,803
		TOTAL	\$10,803
		NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	\$10,803

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
89.003 National Historical Publications and Records Grants

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.024	Promotion of the Arts_Grants to Organizations and Individuals Arts Midwest 00018001		\$37,828
45.025	Promotion of the Arts_Partnership Agreements		\$24,711
45.129	Promotion of the Humanities_Federal/State Partnership Humanities Montana 17R025	\$392,105	\$784,970
	Humanities Montana 17R030		\$517
	Humanities Montana 16R026		\$2,584
	Humanities Montana 16R011		\$3,439
	Humanities Montana 14R022		(\$19)
45.149	Promotion of the Humanities_Division of Preservation and Access Humanities Montana 16R045		\$5,553
	Idaho State Historical Society MOU/PJ-50127-13		\$15,460
45.160	Promotion of the Humanities_Fellowships and Stipends		\$3,273
45.301	Museums for America		\$183,855
45.310	Grants to States		\$3,245
45.312	National Leadership Grants		\$43,464
45.313	Laura Bush 21st Century Librarian Program	\$59,656	\$1,033,163
45.400	Peace Corps' Global Health and PEPFAR Initiative Program		\$251,062
			\$75,867
			\$9,628
		TOTAL	\$2,478,600
		NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	\$2,478,600
NATIONAL SCIENCE FOUNDATION			
47.076	Education and Human Resources Salish Kootenai College 1102362		\$322,827
			\$3,437
		TOTAL	\$326,264
		NATIONAL SCIENCE FOUNDATION TOTAL	\$326,264
SMALL BUSINESS ADMINISTRATION			
59.037	Small Business Development Centers		\$618,139
59.058	Federal and State Technology Partnership Program		\$36,915
59.061	State Trade and Export Promotion Pilot Grant Program		\$377,996
		TOTAL	\$1,033,050
		SMALL BUSINESS ADMINISTRATION TOTAL	\$1,033,050

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Amount to Subrecipients	Expenditures
SOCIAL SECURITY ADMINISTRATION		
96.008 Social Security - Work Incentives Planning and Assistance Program	\$60,273	\$192,264
	TOTAL	\$192,264
Disability Insurance/SSI Cluster		
96.001 Social Security_Disability Insurance		\$6,400,071
	TOTAL	\$6,400,071
	SOCIAL SECURITY ADMINISTRATION TOTAL	\$6,592,335

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF AGRICULTURE		
Agricultural Research Service		
10.001 Agricultural Research_Basic and Applied Research		\$29,665
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$212,946
Pennsylvania State University 5363-MSU-USDA-0169		\$8,206
Economic Research Service		
10.250 Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		\$16,422
Cornell Center for Behavioral Economics in Child Nutrition 77867-10660		\$611
10.253 Consumer Data and Nutrition Research		
Cornell Center for Behavioral Economics in Child Nutrition 62140-10296		\$94
Farm Service Agency		
10.406 Farm Operating Loans		\$77,226
Foreign Agricultural Service		
10.610 Export Guarantee Program		\$79,155
10.960 Technical Agricultural Assistance		
Rutgers, The State University of New Jersey SA#55566; PO 566945		\$45,535
Forest Service		
10.652 Forestry Research	\$49,640	\$4,182,116
National Wilderness Stewardship Alliance WI2017		\$2,199
National Wilderness Stewardship Alliance WI1		\$8,355
River Management Society 2017RMS-WSR50		\$19,627
10.678 Forest Stewardship Program		
Pennsylvania State University 5518-UM-USDA-004		\$19,832
10.680 Forest Health Protection	\$10,900	\$230,647
Salish Kootenai College 2015-38424-24031		\$23,232
10.684 International Forestry Programs		\$278,217
Miscellaneous		
10.RD Miscellaneous Research and Development		\$340,192
University of Wisconsin PO# 0000000666		\$54,989
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		
North Dakota State University FAR0025837		\$7,561

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
	University of Idaho BJKP36-SB-001		\$456
	University of Washington BPO-9517		\$12,495
10.202	Cooperative Forestry Research		\$685,965
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act		\$2,847,181
10.215	Sustainable Agriculture Research and Education		
	University of Idaho BJKP85-SB-001/PO005053		\$15,544
	Utah State University 140867054-135		\$20,777
	Utah State University 140867038-346		\$62,018
	Utah State University 130676003		(\$4)
	Utah State University 130676003-66	\$8,175	\$59,468
	Utah State University 140867026-233	\$4,366	\$54,498
	Utah State University 150893-00001-174		\$36,884
	Utah State University 140867-00001-351		\$24,998
	Utah State University 150893-00001-207		\$23,864
	Utah State University 130676025-277		\$11,867
	Utah State University 120833011-238		\$11,020
	Utah State University 200592-395		\$9,253
	Utah State University SUBAWARD 120833024-127		\$8,475
	Utah State University 200592-00001-311		\$7,822
	Utah State University 140867034-367		\$7,182
	Utah State University 110892006		\$81
	Utah State University 150893-00001-270		\$13,953
	Utah State University 200592-390		\$3,839
	Western Region SARE Program 120833025		\$15,974
10.227	1994 Institutions Research Program		
	Salish Kootenai College 24-171-MSU-91		\$2,553
	Salish Kootenai College SAA-16-MSU-001		\$49,831
	Salish Kootenai College 2016-38424-2558		\$18,653
	Salish Kootenai College 2016-38424-22668		\$31,167
10.303	Integrated Programs	\$9,125	\$276,372
10.304	Homeland Security_Agricultural		
	Kansas State University S17045		\$4,775
	Kansas State University S13009		\$6,243

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.307 Organic Agriculture Research and Extension Initiative	\$73,591	\$190,086
National Center for Appropriate Technology BELASCO		\$19,173
10.309 Specialty Crop Research Initiative		
Cornell University 73999-10426		\$29,293
10.310 Agriculture and Food Research Initiative (AFRI)	\$153,633	\$1,049,297
Colorado State University G-70001-1		\$17,174
Colorado State University G-91600-3		\$110,820
Colorado State University G-91600-2		\$209,771
Kansas State University S15184		\$44,540
North Carolina State University 2015-0097-05		\$20,692
University of California, Davis 201603566-08		\$33,737
University of California, Davis 201015718-18		\$111,107
University of Nebraska-Lincoln 25-6268-0005-004		\$200,605
University of Vermont 29034SUB51751		\$45,278
University of Wyoming 1002178-MSU		\$117
Washington State University 115808 G002983		\$44
Washington State University 115808 G002984		\$4,282
10.312 Biomass Research and Development Initiative Competitive Grants Program (BRDI)	\$6,829	\$160,012
Kansas State University S13098		\$17,493
10.329 Crop Protection and Pest Management Competitive Grants Program	\$9,749	\$218,614
University of California, Davis SA14-2309-34		\$1,566
10.500 Cooperative Extension Service		\$581,736
Utah State University 120834002		\$9,124
Washington State University 108815_G003545		\$20,124
Natural Resources Conservation Service		
10.902 Soil and Water Conservation	\$1,252	\$381,152
Pheasants Forever, Inc. 68-3A75-16-736		\$129,007
10.912 Environmental Quality Incentives Program		\$6,822
DEPARTMENT OF AGRICULTURE TOTAL		\$13,571,697
DEPARTMENT OF COMMERCE		
Economic Development Administration		
11.307 Economic Adjustment Assistance		\$2,007

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
National Institute of Standards and Technology (NIST)		
11.620 Science, Technology, Business and/or Education Outreach Stone & Associates, Inc. NIST-MEP-SA-01		\$339,657
National Oceanic and Atmospheric Administration (NOAA)		
11.431 Climate and Atmospheric Research		\$190,894
11.438 Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program Bering Sea Fishermen's Association AC-1609		\$29,428
11.440 Environmental Sciences, Applications, Data, and Education		\$30,435
National Telecommunications and Information Administration		
11.549 State and Local Implementation Grant Program		\$99,663
	DEPARTMENT OF COMMERCE TOTAL	\$692,084
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development Duke University 12-DARPA-1073		\$8,331
North Carolina State University 6016-2896-04		\$51,676
		\$125,730
Defense Logistics Agency		
12.002 Procurement Technical Assistance For Business Firms Big Sky Economic Development Authority SP4800-16-2-1622		\$328,557
Department of the Air Force, Materiel Command		\$68,757
12.800 Air Force Defense Research Sciences Program University of Minnesota A001650202	\$186,271	\$12,222,126
University of Minnesota A005720602		\$301
		\$12,985
Department of the Army, Office of the Chief of Engineers		
12.114 Collaborative Research and Development		\$355,163
Department of the Navy, Office of the Chief of Naval Research		
12.300 Basic and Applied Scientific Research Glacigen Materials, Inc.		\$338,570
S2 Corporation S2-5504-15-01UC		\$386
TPS Associates, Inc. PO MSU-4631/4Y01-01		\$133,352
University of Oklahoma 2011-20		\$39,482
		\$4,776

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
Miscellaneous			
12.RD	Miscellaneous Research and Development		\$4,761,200
	Blackmore Sensors and Analytics, Inc. USAF ARZ999	\$728,170	\$55,113
	Bridger Photonics		\$44,441
	Leidos PO10169067		\$41,769
	Northrop Grumman Space Technology 7600020795		\$26,968
	Northrop Grumman Space Technology 7600020645		\$69,290
	S2 Corporation S2-14-0006-02		(\$3)
	S2 Corporation S2-17-0003-01		\$19,988
	S2 Corporation S2-5504-16-01C		\$73,907
	S2 Corporation S2-1954-16-01		\$149,707
	Sierra Nevada Corporation PO: S15FNC204		\$1,434
	Sierra Nevada Corporation S16FNC216		\$32,914
	Spectral Molecular Imaging AS		\$109,671
	UES, Inc. S-111-024-001		\$19,691
	University of Maryland 31236-Z8409102		\$7,573
	West Point Military Academy		\$24,971
Office of the Secretary of Defense			
12.630	Basic, Applied, and Advanced Research in Science and Engineering Academy of Applied Science, Inc.		\$23,214
U. S. Army Medical Command			
12.420	Military Medical Research and Development	\$221,383	\$674,716
U.S. Army Materiel Command			
12.431	Basic Scientific Research	\$109,981	\$3,406,129
DEPARTMENT OF EDUCATION		DEPARTMENT OF DEFENSE TOTAL	\$23,232,885
Institute of Education Sciences			
84.305	Education Research, Development and Dissemination SRI International 51-001312		\$308,816
Office of Elementary and Secondary Education			
84.299	Indian Education -- Special Programs for Indian Children Little Big Horn College ILEAD		\$174,475
			(\$32)

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
84.367	Improving Teacher Quality State Grants National Writing Project 09-MT02-SEED2017 ILI University of California, Berkeley 09-MT02-SEED2012		\$4,469 (\$3,205)
Office of Postsecondary Education			
84.116	Fund for the Improvement of Postsecondary Education Western Interstate Commission for Higher Education		\$50,653
		DEPARTMENT OF EDUCATION TOTAL	\$535,176
DEPARTMENT OF ENERGY			
81.049	Office of Science Financial Assistance Program Aerodyne Research, Inc. ARI 11129-2 Amethyst Research Inc AMETHYST-MSU Montana Emergent Technologies Inc MET-MSU National Securities Technology 145485/DE-AC52-06NA25946 Sandia National Laboratories PO #1779428 Sandia National Laboratories 1649078 University of Wyoming DE-SC0012671 Conservation Research and Development Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY17 Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY16 Pacific States Marine Fisheries Commission 16-39G Pacific States Marine Fisheries Commission 17.54 Renewable Energy Research and Development Materia Inc University of Toledo F-2013-30 Fossil Energy Research and Development	\$1,101,757	\$2,730,356 \$8,756 \$64,948 \$55,504 (\$4,620) \$7,510 \$20,000 \$199,390 \$3,189,849 \$81,011 \$90,538 \$51,145 \$101,104 \$6,943 \$210,758 \$2,346,926
81.087		\$834,006	
Miscellaneous			
81.RD	Miscellaneous Research and Development Aerodyne Research Incorporated ARI11138-1 Battelle Energy Alliance DE-AC07-05ID14517 Lawrence Berkeley National Laboratory DE-AC02-05CH11231	\$46,630	\$11,838 \$24,126 \$112,363

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
Sandia National Laboratories	1340328		(\$1,254)
Sandia National Laboratories	1663302		\$160,362
		DEPARTMENT OF ENERGY TOTAL	\$9,467,553
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Administration for Children and Families			
93.670	Child Abuse and Neglect Discretionary Activities		
	Futures Without Violence		\$30,780
Administration for Community Living			
93.325	Paralysis Resource Center		
	Christopher and Dana Reeve Foundation		\$69,203
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	\$288,802	\$1,649,047
	Institute for Rehabilitation and Research		\$32,841
	Institute for Rehabilitation and Research		\$4,724
	Institute for Rehabilitation and Research		\$16,337
	University of Kansas		\$64,912
	University of Kansas		\$65,316
Agency for Healthcare Research and Quality			
93.226	Research on Healthcare Costs, Quality and Outcomes		
	University of Washington		\$3,760
Agency for Toxic Substances and Disease Registry			
93.161	Health Program for Toxic Substances and Disease Registry		
	Denver Health		\$4,365
Centers for Disease Control and Prevention			
93.136	Injury Prevention and Control Research and State and Community Based Programs	\$147,942	\$245,461
93.262	Occupational Safety and Health Program		\$104,860
93.424	NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations		
	Association of Maternal & Child Health Programs		\$6,053
93.524	Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations-- financed in part by Prevention and Public Health Funds (PPHF)		
	National Association of Chronic Disease Directors		\$9,616

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
Food and Drug Administration			
93.103	Food and Drug Administration_Research		\$26,601
Health Resources and Services Administration			
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	\$436,955	\$640,807
93.178	Nursing Workforce Diversity		\$310,355
93.301	Small Rural Hospital Improvement Grant Program	\$419,177	\$430,259
93.358	Advanced Education Nursing Traineeships		\$343,430
93.359	Nurse Education, Practice Quality and Retention Grants	\$82,441	\$188,787
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		\$153,401
93.913	Grants to States for Operation of Offices of Rural Health		\$170,921
Indian Health Service			
93.933	Demonstration Projects for Indian Health		
	Blackfeet Community College 2014-01-MSU		\$68,534
	Fort Peck Community College FPCC - AIHEC		\$18,968
93.970	Health Professions Recruitment Program for Indians		\$287,659
Miscellaneous			
93.RD	Miscellaneous Research and Development		\$161,876
	National Wilderness Stewardship Alliance K-002052		\$13,449
National Institutes of Health			
93.113	Environmental Health	\$599,179	\$2,379,376
	Scripps Research Institute 5-52774		\$131,488
	Scripps Research Institute 5-53234		\$8,732
	Scripps Research Institute 5-52250		(\$4,846)
	University of New Mexico 3RY74		\$52,192
93.143	NIEHS Superfund Hazardous Substances_Basic Research and Education		\$7,242
93.173	Research Related to Deafness and Communication Disorders		\$12,869
93.213	Research and Training in Complementary and Integrative Health		\$193,242
93.242	Mental Health Research Grants		\$305,234
	Chinglu Pharmaceutical Research LLC CL-002		\$43,413
	Indiana University BL--4631228-UM		\$6,298
93.273	Alcohol Research Programs		\$27,235

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
93.279	Drug Abuse and Addiction Research Programs Yale University M16A12253 (A10413)		\$134,768
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	\$138,421	\$15,345
93.307	Minority Health and Health Disparities Research	\$165,431	\$317,507
93.310	Trans-NIH Research Support		\$402,364
93.350	National Center for Advancing Translational Sciences University of Washington UWSC922/BPO17748		\$93,851
93.351	Research Infrastructure Programs Meadowlark Science and Education, LLC MSE-001UM01		\$25,154
93.389	National Center for Research Resources		\$483,123
93.393	Cancer Cause and Prevention Research		(\$20,162)
93.837	Cardiovascular Diseases Research Cornell University 69020-10278		\$127,261
	Methodist Hospital 15350004-93		\$86,717
	Mount Sinai School of Medicine 0255-7875-4609		\$26,622
	University of Maryland SUBAWARD 10015214		\$51,459
			\$58
			\$177,046
			\$55
93.846	Arthritis, Musculoskeletal and Skin Diseases Research		\$2,883
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research		\$787,692
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders The John B Pierce Laboratory SUBAWARD NO. 243-A Thomas Jefferson University 080-19250-509101 Yale University M17A12590 (A10930)	\$507,558	\$2,447,850
			\$205,492
			\$23
			\$54,987
93.855	Allergy and Infectious Diseases Research Corixa Corporation COA #6 Corixa Corporation COA #5 Indiana University PO1464301 Ohio State University UT18209 Promilad Biopharma Inc R41A118104 Sorrento Therapeutics Inc 4R42A1098182-04 University of Connecticut 50074 University of Connecticut KFS #5619100, 49814 University of Kentucky 3048111727-15-011 University of Notre Dame 202953MSU	\$5,117	\$3,080,395
			\$1,456,237
			\$1,364,621
			\$145,258
			\$12,039
			\$53,724
			\$95,310
			\$115,548
			\$130,375
			\$5,421
			\$108,599

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster			Amount to Subrecipients	Expenditures
93.859	Biomedical Research and Research Training	17-746Q-MSU-PG57-00	\$1,532,031	\$14,567,849
	Mountain West Research Consortium	60705124-111946		\$34,206
	Stanford University	16-746Q-UM-PG43-00		\$8,535
	University of Nevada, Las Vegas	UNLV CTR-IN PA		\$1,826
	University of Nevada, Las Vegas	16-746Q-UM-MG26		\$566
	University of Nevada, Las Vegas	16-746Q-MSU-PG51-00		\$3,953
	University of Nevada, Las Vegas	16-746Q-UMT-BS10-01		\$10,410
	University of Nevada, Las Vegas	16-746Q-MSU-BS13-01		\$31,874
	University of Nevada, Las Vegas	17-746Q-UM-PG55-00		\$33,858
	University of Nevada, Las Vegas	14-747X-C-01		\$57,014
	University of Nevada, Las Vegas	16-746Q-UM-GP46-00		\$195,853
	University of Southern California	Y82277 38763030		\$476
	University of Southern California	74478900		(\$18,804)
	University of Washington	761999		\$86,807
	University of Washington	UWSC9319		\$4,568
93.865	Child Health and Human Development Extramural Research		\$6,870	\$114,378
	Stanford University	60595107-49686		\$417,912
	University of Virginia	GB10325 151802		\$133,513
93.866	Aging Research		\$27,000	\$41,582
	Johns Hopkins University	2003050472		\$259,003
93.867	Vision Research			\$19,078
	American Gene Technologies	AGT CONTRACT		\$280,030
	University of California, Berkeley	00008466		(\$1)
Substance Abuse and Mental Health Services Administration				
93.243	Substance Abuse and Mental Health Services_ Projects of Regional and National Significance			\$469,329
	Community Connections			\$39,152
	Community Impact Coalition			\$23,522
	Harrison County Family Resource Network			\$23,165
	Potomac Highlands Guild			\$23,284
	Pretera Center			\$23,335
	Westbrook Health Services			\$23,108

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.959 Block Grants for Prevention and Treatment of Substance Abuse Oregon Department of Human Services 147702		\$659
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	\$37,247,535
DEPARTMENT OF JUSTICE		
National Institute of Justice		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		\$41,049
Office for Victims of Crime		
16.582 Crime Victim Assistance/Discretionary Grants		\$82
	DEPARTMENT OF JUSTICE TOTAL	\$41,131
DEPARTMENT OF LABOR		
Employment Training Administration		
17.261 WIA/WIOA Pilots, Demonstrations, and Research Projects		\$11
	DEPARTMENT OF LABOR TOTAL	\$11
DEPARTMENT OF STATE		
Bureau of Educational and Cultural Affairs		
19.408 Academic Exchange Programs - Teachers International Research and Exchanges Board FY16-TEA-MSU-01		\$189,048
Bureau of Near Eastern Affairs		
19.500 Middle East Partnership Initiative Georgetown University MSU-GR205338/S/NEAAC-17-CA1016		\$210,501 \$79,765
	DEPARTMENT OF STATE TOTAL	\$479,314
DEPARTMENT OF THE INTERIOR		
Bureau of Indian Affairs		
15.034 Agriculture on Indian Lands	\$15,000	\$5,754
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management Kautz Environmental Consultants Inc KAUTZ 17-18		\$125,488 \$4,175
15.225 Recreation Resource Management University of Alaska Fairbanks UAF 17-0045		\$43,971 \$8,939
15.228 BLM Wildland Urban Interface Community Fire Assistance		\$11,338

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
15.230	Invasive and Noxious Plant Management		\$66,781
15.231	Fish, Wildlife and Plant Conservation Resource Management	\$10,000	\$180,383
	Western Association of Fish and Wildlife Agencies MOU		\$10,000
15.232	Wildland Fire Research and Studies Program		\$358,474
	University of California, Riverside S-000770		\$15,924
	Utah State University 200588-00001-294		\$8,188
15.236	Environmental Quality and Protection Resource Management		\$83,319
15.238	Challenge Cost Share		\$70,803
Bureau of Reclamation			
15.517	Fish and Wildlife Coordination Act		\$127,132
15.531	Yakima River Basin Water Enhancement Project (YRBWEP)		\$77,684
Fish and Wildlife Service			
15.605	Sport Fish Restoration Program		
	Wyoming Game and Fish Department 002243		\$49,877
15.608	Fish and Wildlife Management Assistance		\$27,842
15.611	Wildlife Restoration and Basic Hunter Education		\$1,754,536
	Idaho Department of Fish and Game IDFG-MA-2015109-VEG		\$25,918
	Idaho Department of Fish and Game IDFG-MA-20151029-POP		\$186,362
	Nevada Department of Wildlife MDR-001		\$27,401
	South Dakota Game, Fish and Parks 15-0600-012		\$553
	State of Colorado 17-IGA-94119		\$12,323
	State of Colorado PMAA 2016_12297		\$11,906
	University of Missouri C00047758-1		\$11,334
15.634	State Wildlife Grants		
	Western Association of Fish and Wildlife Agencies MOU		\$82,569
15.637	Migratory Bird Joint Ventures	\$16,000	\$204,980
	Pheasants Forever 60181BJ653		\$12,169
	Pheasants Forever, Inc. PF2013-11		\$5,564
15.650	Research Grants (Generic)		\$218,203
	University of California, Santa Cruz S0183989		\$19,416
15.654	Visitor Facility Enhancements - Refuges and Wildlife		\$345,985
15.655	Migratory Bird Monitoring, Assessment and Conservation		\$185,731
15.657	Endangered Species Conservation - Recovery Implementation Funds		\$377,016

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster			Amount to Subrecipients	Expenditures
15.660	Endangered Species - Candidate Conservation Action Funds			\$110,681
	Western Association of Fish and Wildlife Agencies	SC-C-13-01		\$11,176
15.663	National Fish and Wildlife Foundation			
	National Fish & Wildlife Foundation	0103.13.038862	\$24,203	\$32,315
15.664	Fish and Wildlife Coordination and Assistance Programs			
	Western Association of Fish and Wildlife Agencies	MOU		\$98,274
15.670	Adaptive Science		\$7,500	\$93,613
	Western Association of Fish and Wildlife Agencies	MOU		\$62,559
15.678	Cooperative Ecosystem Studies Units			\$91,057
Miscellaneous				
15.RD	Miscellaneous Research and Development			\$150,079
National Park Service				
15.915	Technical Preservation Services			\$193,555
15.921	Rivers, Trails and Conservation Assistance			
	River Management Society	2017RMS-WSR50		\$4,020
15.945	Cooperative Research and Training Programs - Resources of the National Park System		\$3,528	\$1,234,237
Office of Surface Mining				
15.255	Science and Technology Projects Related to Coal Mining and Reclamation			\$15,205
U.S. Geological Survey				
15.805	Assistance to State Water Resources Research Institutes			\$104,662
15.807	Earthquake Hazards Research and Monitoring Assistance			\$5,990
15.808	U.S. Geological Survey_ Research and Data Collection			\$318,380
15.810	National Cooperative Geologic Mapping Program			\$202,067
15.812	Cooperative Research Units Program			\$215,257
15.814	National Geological and Geophysical Data Preservation Program			\$12,304
15.815	National Land Remote Sensing_ Education Outreach and Research			
	America View Inc	AV13-MT01		\$8,448
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)			\$13,083
15.820	National Climate Change and Wildlife Science Center			
	America View Inc	AVCSC13-MT01/PO 458357		\$1,000
	Colorado State University	G-8841-2		\$329
	Colorado State University	G-8892-1		\$61,470
	Colorado State University	G-50003-1		\$109,928

The accompanying notes are an integral part of this schedule.

A-227

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
Southern Illinois University 767105-002 PO 120118		\$59
Wisconsin Department of Transportation 0092-15-12		\$799
Wyoming Department of Transportation RS10216		\$39,221
Federal Transit Administration		
20.514 Public Transportation Research, Technical Assistance, and Training Aerodyne Research Incorporated ARI 11012-3		(\$158)
National Highway Traffic Safety Administration		
20.600 State and Community Highway Safety Virginia Tech 451388-19060		\$21,114
20.616 National Priority Safety Programs Washington Traffic Safety Commission		\$8,863
Office of the Secretary (OST)		
20.701 University Transportation Centers Program University of Alaska Fairbanks UAF 14-0098 FP42825	\$497,788	\$1,047,177
Pipeline and Hazardous Materials Safety Administration		\$218,300
20.724 Pipeline Safety Research Competitive Academic Agreement Program (CAAP) Rutgers, The State University of New Jersey 00005805 PO 449646		\$17,328
DEPARTMENT OF TREASURY	DEPARTMENT OF TRANSPORTATION TOTAL	\$6,279,025
Community Development Financial Institutions Fund		
21.020 Community Development Financial Institutions Program		\$26,339
ENVIRONMENTAL PROTECTION AGENCY	DEPARTMENT OF TREASURY TOTAL	\$26,339
Miscellaneous		
66.RD Miscellaneous Research and Development Clark Fork Coalition 36-3428665		\$1,857
Office of Administration		\$3,461
66.605 Performance Partnership Grants Flathead City-County Health Department 515017		\$53

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
Office of Air and Radiation			
66.001	Air Pollution Control Program Support Idaho Department of Environmental Quality K124 Idaho Department of Environmental Quality K169		\$39 \$17,205 \$369,800
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		
Office of Chemical Safety and Pollution Prevention			
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		\$20,752
Office of Research and Development			
66.509	Science To Achieve Results (STAR) Research Program Little Big Horn College MSU-LBHC Pennsylvania State University 5375-MSU-EPA-4201 University of New Mexico 3RAW5 / 83615701		\$115,095 \$7,933 \$61,031
Office of Water			
66.419	Water Pollution Control State, Interstate, and Tribal Program Support Clark Fork Coalition 215006		\$91,461 \$5,063
66.454	Water Quality Management Planning Clark Fork Coalition 215006		\$14,960
66.461	Regional Wetland Program Development Grants		\$416,907
		ENVIRONMENTAL PROTECTION AGENCY TOTAL	\$1,125,617
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Science Arizona State University NNX16AJ61G Georgia State University SP00011775-02 Glacigen Materials, Inc. Johns Hopkins University 970066 Lockheed Martin Corporation 8100002702 Princeton University SUB0000148 Qualtech Systems Inc QSI-DSC-14-004 SETI Institute SC 3118 Smithsonian Astrophysical Observatory SV7-77003	\$826,296	\$5,678,709 \$43,693 \$9,963 \$1,475 \$7,884 \$364,753 \$6,401 \$89,791 \$51,053 \$114,576

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster			Amount to Subrecipients	Expenditures
	South Dakota State University	3TB481		\$16,068
	Southwest Research Institute	H99053CO		\$31,499
	Trustees of Dartmouth College	R852		\$117,135
	University Corporation For Atmospheric Research	Z16-19576		\$12,384
	University of California, Berkeley	SA1868-26308PG; BB00090555		\$19,082
	University of California, Santa Barbara	KK1301		\$517
	University of Colorado	1552610 / NNA15BB02A		\$62,329
	University of Southern California	55747174		\$124,146
	University of Washington	UWSC8879/BPO13182		\$10,783
	University of Washington	UWSC8879/BPA13182		\$163,238
	USDA Forest Services Rocky Mountain Research Station	15-JV-11221637-051		\$36,950
	Wildlife Conservation Society	SERDP110515-217		\$98,941
43.002	Aeronautics			
	Carnegie Institution of Washington	DTM-3250-15 (PHASE E)		(\$83)
43.008	Education		\$10,503	\$1,184,312
43.009	Cross Agency Support		\$41,454	\$262,967
Miscellaneous				
43.RD	Miscellaneous Research and Development			
	California Institute of Technology Jet Propulsion Lab	1422120		\$63,236
	Southwest Research Institute	E99044MO		\$45,024
			NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	\$8,616,826
NATIONAL ENDOWMENT FOR THE HUMANITIES				
45.129	Promotion of the Humanities_Federal/State Partnership			
	Humanities Montana	16R041		\$4,000
	Humanities Montana	16R036		\$8,096
45.161	Promotion of the Humanities_Research			\$61,366
			NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	\$73,462
NATIONAL SCIENCE FOUNDATION				
47.041	Engineering Grants		\$6,344	\$1,651,873
	Advanced Microcavity Sensors LLC			(\$477)
	Sustainable Bioproducts	SUSBIO-MSU-NSF		\$6,440

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster			Amount to Subrecipients	Expenditures
47.049	Mathematical and Physical Sciences			\$2,009,684
	S2 Corporation S2-1330880-13-03			\$13,744
	University of West Georgia 111554AUM			\$31,517
	University of Wisconsin-Milwaukee 153405537			\$48,343
47.050	Geosciences		\$173,169	\$2,087,201
	George Washington University 14-S17			\$34,099
	University of Hawaii at Manoa MA130029/MA1131			\$49,876
	University of Southern California PO 10309251 OCE-0939564			\$39,913
47.070	Computer and Information Science and Engineering		\$12,357	\$523,453
47.074	Biological Sciences		\$966,422	\$5,476,478
	Cary Institute of Ecosystem Studies 3340-200201873			\$1,952
	Indiana University BL-4824219-UM			\$12,144
	Noble Research Institute, LLC 2015-978-001			\$6,969
	University of Colorado 1554533			\$98,463
	University of Florida UFOER00011511			\$15,004
	USDA Forest Services Rocky Mountain Research Station 16-JV-11221633-029			\$8,731
	Washington State University 118996_G003357			\$162,757
47.075	Social, Behavioral, and Economic Sciences			\$469,292
	South Dakota State University 3CT649			\$6,529
	Tufts University A130001			\$17,112
47.076	Education and Human Resources		\$260,408	\$3,013,770
	Colorado State University 96702-5			\$75,921
	George Mason University E2033191			\$158,400
	Michigan State University RC104101MONTANA			\$34,358
	Salish Kootenai College UM-SA03			\$3,450
	Salish Kootenai College SAG-16-UOM-002			\$12,580
	Salish Kootenai College HRD-1262779			\$18,142
	University of California National Writing Project 93-MT01-NSF2013			\$97
	University of Nebraska-Lincoln 25-0536-0019-002			\$84
47.078	Polar Programs			\$503,134
	University of Colorado SPO 1000046125/1548197			\$98,003
47.079	Office of International Science and Engineering		\$32,888	\$459,400

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
47.080 Office of Cyberinfrastructure		\$3,873,393
47.083 Office of Integrative Activities	\$174,641	\$543,921
Trustees of Dartmouth College R896/1632738		\$86,268
NATIONAL SCIENCE FOUNDATION TOTAL		\$21,652,018
SMALL BUSINESS ADMINISTRATION		
59.058 Federal and State Technology Partnership Program		
Defense Alliance of Minnesota ADT CLUSTERS 15_16		\$13,593
Defense Alliance of Minnesota ADT CLUSTERS 16-17		\$39,849
SMALL BUSINESS ADMINISTRATION TOTAL		\$53,442
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001 USAID Foreign Assistance for Programs Overseas		
International Food Policy Research Institute 2016X179.MSU	\$13,877	\$31,055
University of Florida UFDSP00011520/P0023483		\$19,941
University of Georgia RC282-392/4942936		\$60,564
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL		\$111,560
RESEARCH AND DEVELOPMENT CLUSTER TOTAL		\$131,328,370
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL		\$3,870,127,574

The accompanying notes are an integral part of this schedule.

**STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the state of Montana under programs of the federal government for the fiscal year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (referred to as the "Uniform Guidance"), and where applicable, Office of Management and Budget Circular A-133 requirements.

Because this schedule presents only a selected portion of the operations of the state of Montana, it is not intended to, and does not present, the financial positions, change in net assets, or, where applicable, its cash flows for the fiscal year ended June 30, 2017.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are generally recorded in the accounting period in which the liability is incurred. However, there are some payments, such as compensated absences, that are only recorded when the payment is due.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Montana University System uses full accrual accounting to report campus federal expenditure activity. The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantees (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented on the basis of accounting described in each note. The Books for the Blind and Physically Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of

Federal Awards but is provided as additional information regarding the types of donations received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States. During fiscal year 2017, Montana distributed \$1,170,048 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$10,604,874 in commodities in fiscal year 2017. The value at June 30, 2017 of commodities stored at the state's warehouse is \$1,743,598, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities Research Program (CFDA #93.307) includes endowment funds of \$9,375,000, along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2017. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2017, Montana received 204,179 vaccine doses valued at \$10,708,009.

Note 2. Loan and Loan Guarantee Programs

The following loan and loan guarantee programs are reported on the Schedule of Expenditures of Federal Awards at their July 1, 2016 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2017:

CFDA#	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2017 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 271,203,638
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 141,411,906
	Total State Revolving Loan Programs	\$ 412,615,544

CFDA#	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2017 Ending Balance
84.032	Federal Family Education Loans	\$59,296,580
84.038	Federal Perkins Loan Program	\$32,183,084
93.364	Nursing Student Loans	\$2,194,776
93.264	Nurse Faculty Loan Program	\$14,471
93.342	Health Professions Student Loans	\$176,650
	Total Student Financial Assistance Programs	\$93,865,561

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans Program (CFDA #84.032) during fiscal year 2017. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years, for which the federal government has imposed continuing compliance requirements, was \$59,296,580 at June 30, 2017.

Effective October 1, 2017, the loan servicing portion of the MGSLP was transferred to a federally approved national education loan servicing provider. The amount transferred at September 30, 2017 was \$64,643,273, which included \$53,516,103 in principal and interest and \$11,127,170 in borrower collection costs. Also refer to Note 14.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) consists of two separate awards which are reported on the Schedule of Expenditures of Federal Awards at their June 30, 2017 ending loan balances. The amount of loans outstanding as of June 30, 2017 is \$382,846 for award number 05-19-02445 and \$2,794,264 for award number 05-79-73005.

The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Title IX SSED Revolving Loan Fund		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2017		\$ 409,369
Cash & Investments FYE 2017		\$ 94,375
FY 2017 Admin paid out of RLF Income		\$ 35,476
Unpaid Principal of loans written of during FY		\$ -
		\$ 539,220
Federal Percentage		71%
Federal Share of Revolving Loan Fund		\$ 382,846
Award Number: 05-79-73005		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Economic Adjustment Assistance		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2017		\$ 3,875,356
Cash & Investments FYE 2017		\$ 1,308,025
FY 2017 Admin paid out of RLF Income		\$ 405,146
Unpaid Principal of loans written of during FY		\$ -
		\$ 5,588,527
Federal Percentage		50%
Federal Share of Revolving Loan Fund		\$ 2,794,264

Other Federal Loans

The following loans, originally funded through federal programs, do not have any continuing federal compliance requirements imposed on the state, other than the loan repayments. These loans are not reported on the Schedule of Expenditures of Federal Awards:

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2017. The amount of the loan outstanding as of June 30, 2017 is \$6,084,615.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is \$2,990,129, and reimbursable interest during construction is \$281,857. As of June 30, 2017, the loan outstanding is \$1,942,789, and reimbursable interest during construction is \$175,890.

Note 3. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2017 will be issued by March 31, 2018.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2017.

Note 4. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.UXX or **.RD. Also refer to Note 13.

Note 5. Program Clusters

As defined by 2 CFR section 200.17, a cluster of programs is a grouping of closely related programs that share common compliance requirements. Except for the Student Financial Assistance Cluster, clusters of programs are presented on the Schedule of Expenditures of Federal Awards either within their respective federal agency (for non-research and development programs) or by federal agency and major subdivision (for research and development programs).

Student Financial Assistance Cluster

Amounts reported for the Student Financial Assistance Cluster include programs administered by both the Department of Education and the Department of Health and Human Services. These clusters are shown separately, within their respective federal agencies, on the Schedule of Expenditures of Federal Awards.

The combined Student Financial Assistance Cluster includes the following programs:

CFDA #'	Student Financial Assistance Cluster	FY 17 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	\$1,350,227
84.033	Federal Work-Study Program	\$2,266,664
84.038	Federal Perkins Loan Program - Federal Capital Contributions	\$36,718,849
84.063	Federal Pell Grant Program	\$46,861,495
84.268	Federal Direct Student Loans	\$178,026,666
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	\$5,122
93.264	Nurse Faculty Loan Program (NFLP)	\$21,729
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$199,042
93.364	Nursing Student Loans	\$2,709,657
	Total Student Financial Assistance Cluster	\$268,159,451

Note 6. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function.

Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 7. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by the state, which is determined to be 22.47% of the original acquisition cost of the property.

Property received under CFDA #81.RD, Miscellaneous Research and Development, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2017. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 17 Amount	FY 17 Ending Inventory
10.203	Agricultural Experiment Stations	\$1,821	\$125,057
10.500	Cooperative Extension Service	\$0	\$3,039
10.664	Cooperative Forestry Assistance	(\$61,513)	\$4,689,634
10.UXX	Agriculture Miscellaneous – Non-major	\$0	\$131,341
39.003	General Services Administration	(\$26,404)	\$51,775
81.RD	Miscellaneous Research and Development	\$0	\$5,150
43.UXX	NASA Miscellaneous – Non-major	\$0	\$640,395
47.UXX	NSF Miscellaneous – Non-major	(\$6,672)	\$177,967

Note 8. Department of Defense Firefighting Property

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 22.47% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2017:

CFDA #	Program	FY 17 Amount	FY 17 Ending Inventory
12.UXX	DOD Firefighter Program	\$303,448	\$2,645,260

Note 9. Books for the Blind and Physically Handicapped

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Books for the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2017 was \$963,142.

Since this program is considered a federal “use of equipment” agreement, the accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 10. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	\$108,262,192
Federal UI Expenditures	<u>19,443,479</u>
Total	\$127,705,671

Note 11. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 12. Subgrants to Non-State Agencies

Federal assistance transferred from a Montana state agency or university to a non-state agency, such as a city, county, tribal government, or nonprofit organization, is identified in the Amount to Subrecipients column shown in the Schedule of Expenditures of Federal Awards. These amounts are included in the expenditure totals shown on the report.

The Amounts to Subrecipients also includes federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency, is shown below:

CFDA #	Federal Program	Amount to Subrecipients
Non Research and Development		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$45,000
84.048	Career and Technical Education -- Basic Grants to States	\$2,431,727
84.126	Rehabilitation Services _ Vocational Rehabilitation Grants to States	\$31,138
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	\$61,546
84.419	Preschool Development Grants	\$1,347,918
93.236	Grants to States to Support Oral Health Workforce Activities	\$25,061
93.262	Occupational Safety and Health Program	\$3,531
93.464	ACL Assistive Technology	\$60,000
	Total - Non Research and Development	\$4,005,921
TANF Cluster		
93.558	Temporary Assistance for Needy Families	\$763,430
	Total TANF Cluster	\$763,430
Research and Development Cluster		
20.205	Highway Planning and Construction	\$36,054
47.079	Office of International Science and Engineering	\$32,888
93.859	Biomedical Research and Research Training	\$6,828
	Total Research and Development Cluster	\$75,770

Note 13. Federal Awards not having a CFDA Number

The following schedules contain contract or grant numbers associated with awards that did not have a CFDA number and were assigned either a **.UXX or **.RD number in the Schedule of Expenditures of Federal Awards. Not all **.UXX or **.RD awards reported on the SEFA had a grant or contract number. Also refer to Note 4.

<i>Schedule of Unknown Federal CFDA Numbers (**.UXX)</i>				
<i>Federal Agency</i>		<i>State Agency</i>	<i>Contract or Grant Number</i>	<i>Amount</i>
DEPARTMENT OF AGRICULTURE				
	10.U07	Department of Fish, Wildlife and Parks	11-CS-11011000-037	12,873.00
	10.U08		11-CS-11011600-040	9,625.00
	10.U09		11-PA-11010200-050	892.00
	10.U10		12-CS-11011000-047	73,662.00
	10.U13		12-PA-11011600-040	12,335.00
	10.U14		13-CS-11011000-004	43,441.00
	10.U15		13-CS-11011100-008	824.00
	10.U16		13-CS-11011500-016	6,308.00
	10.U19		14-CS-11011200-013	41,887.00
	10.U21		15-CS-11011100-070	2,250.00
	10.U23	Department of Natural Resources and Conservation	Project Financial Plan 12-FI-11010800-012	19,437.00
	10.U25		Project Financial Plan 12-FI-11011200-022	18,708.00
	10.U26		Project Financial Plan 12-FI-11011600-003	371.00
	10.U27		Project Financial Plan 12-FI-11015200-015	24,216.00
	10.U28		Project Financial Plan 13-FI-11011400-013	631.00
	10.U29		Project Financial Plan 13-FI-11011600-045	924.00
	10.U31		Project Financial Plan 14-FI-11011400-011	154.00
	10.U32		Project Financial Plan 15-FI-11010200-001	544.00
	10.U33	University of Montana - Montana Tech	17-CS-11015600-005	2,472.00
	10.U34	University of Montana - Western	16-CS-11010200-021	1,593.00
	10.U35	Department of Natural Resources and Conservation	Project Financial Plan 16-FI-11011100-057	1,319.00
	10.U36		Project Financial Plan 16-FI-11011500-026	5,371.00
	10.U37		Project Financial Plan 17-FI-11015200-003	893.00
	10.U38		STEWARDSHIP AGREEMENT-13-SA-11015600-063	10,694.00
	10.U39	Department of Fish, Wildlife and Parks	16-PA-11011100-012	823.00
	10.U40		14-PA-11011100-32	2,892.00
	10.U41		12-PA-11010200-049	1,087.00
	10.U42		16-CS-11011600-010	10,214.00
	10.U43	Montana State University - Bozeman	Unknown	9,614.00
	10.U44	Department of Fish, Wildlife and Parks	12-CS-11011000-062	19,643.00
	10.U45		09-CS-11011500-004	8,197.00
DEPARTMENT OF DEFENSE				
	12.U01	Department of Natural Resources and Conservation	Unknown	303,448.00
DEPARTMENT OF EDUCATION				
	84.U01	Office of Public Instruction	Contract # ED-IES-14-C-0086	107,814.00
DEPARTMENT OF ENERGY				
	81.U01	Department of Environmental Quality	Unknown	(2,169.00)
	81.U02	Department of Natural Resources and Conservation	0201.17.053086	41,261.00
DEPARTMENT OF TREASURY				
	21.U01	Department of Administration	Unknown	1,643.00
LIBRARY OF CONGRESS				
	42.U01	Montana Historical Society	Unknown	11,020.00
		Identifies awards with unknown CFDA numbers that were previously reported in FY 2016.		

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (XX.RD)				
Federal Agency		State Agency	Contract or Grant Number	Amount
DEPARTMENT OF AGRICULTURE				
	10.RD	University of Montana - Montana Tech	07-CS-11015600-099	9,828.00
		Montana State University - Bozeman	PO# 0000000666	54,989.00
			Unknown	330,364.00
DEPARTMENT OF DEFENSE				
	12.RD	University of Montana - Missoula	H92236-17-P-5122	135,332.00
			W9128F-14-2-0002 TO 0011	716,893.00
			W9128F-14-2-0002 TO 0012	1,092,808.00
			W9128F-14-2-0002 TO 0013	677,529.00
			W9128F-14-2-0002 TO 0016	441,111.00
			W9128F-14-2-0002 TO 0017	259,845.00
			W9128F-14-2-0002 TO 0018	41,223.00
			W9128F-14-2-0002 TO 0019	180,766.00
			W9128F-14-2-0002 TO 0020	25,176.00
			W9128F-14-2-0002 TO 0021	168,079.00
			W9128F-14-2-0002 TO 0022	31,814.00
			W9128F-14-2-0002 TO 0024	7,141.00
			W9128F-14-2-0002, TO 0001	99,925.00
			W9128F-14-2-0002, TO 0002	42,400.00
			W9128F-14-2-0002, TO 0004	6,379.00
			W9128F-14-2-0002, TO 0005	313,969.00
			W9128F-14-2-0002, TO 0006	41,789.00
			W912HZ-16-2-0023	4,605.00
			Unknown	57,403.00
		Montana State University - Bozeman	USAF ARZ999	55,113.00
			PO10169067	41,769.00
			7600020795	26,968.00
			7600020645	69,290.00
			S2-17-0003-01	19,988.00
			S2-5504-16-01C	73,907.00
			S2-14-0006-02	(3.00)
			S2-1954-16-01	149,707.00
			PO: S15FNC204	1,434.00
			S16FNC216	32,914.00
			AS	109,671.00
			S-111-024-001	19,691.00
			31236-Z8409102	7,573.00
			Unknown	486,425.00
DEPARTMENT OF ENERGY				
	81.RD	Montana State University - Bozeman	ARI11138-1	11,838.00
		University of Montana - Montana Tech	DE-AC07-05ID14517	24,126.00
			DE-AC02-05CH11231	112,363.00
			1340328	(1,254.00)
			1663302	160,362.00
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
	93.RD	University of Montana - Montana Tech	211-2014-59580	73,130.00
			214-2017-M-93216	7,605.00
		University of Montana - Missoula	K-002052	13,449.00
		Department of Public Health and Human Services	BHSIS State Agreement REF# 283-07-4803 SAMSHA	80,693.00
			DASIS State Agreement with SAMSHA	448.00
DEPARTMENT OF THE INTERIOR				
	15.RD	University of Montana - Missoula	P13AC00618	15,903.00
			CHECK #1003	3.00
			Unknown	3,269.00
			G15PC00055	8,737.00
			G16PC00324	9,945.00
		Montana State University - Bozeman	Unknown	59,039.00
		University of Montana - Montana Tech	H1580070001	53,183.00
ENVIRONMENTAL PROTECTION AGENCY				
	66.RD	University of Montana - Missoula	EP-16-8-000017	1,857.00
			36-3428665	3,461.00
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
	43.RD	University of Montana - Missoula	1422120	63,236.00
			E99044MO	45,024.00

Note 14. Subsequent Event

Effective October 1, 2017, the loan servicing portion of the Montana Guaranteed Student Loan Program was transferred to a federally approved national education loan servicing. The value of principle, interest, and borrower collection costs transferred at September 30, 2017 was \$64,643,273. Also refer to Note 2.

STATE OF MONTANA

STATE RESPONSES

DEPARTMENT OF ADMINISTRATION

B-1



STEVE BULLOCK, GOVERNOR
MIKE COONEY, LIEUTENANT GOVERNOR

JOHN LEWIS
DIRECTOR

STATE FINANCIAL SERVICES DIVISION

State Accounting Bureau
Mitchell Bldg., Rm. 255
P.O. Box 200102
Helena, MT 59620
(406) 444-3092

Financial Services
Technology Bureau
Mitchell Bldg., Rm. 295
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Helena, MT 59620
(406) 444-3092

State Social Security
Administrator
Mitchell Bldg., Rm. 255
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Helena, MT 59620
(406) 444-4689

Local Government
Services Bureau
Mitchell Bldg., Rm. 270
P.O. Box 200547
Helena, MT 59620
(406) 444-9101

State Procurement Bureau
Mitchell Bldg., Rm. 165
P.O. Box 200135
Helena, MT 59620
(406) 444-2375

February 1, 2018

Angus Maciver, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
PO Box 201075
Helena, MT 59620-1705

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FEB 02 2018

LEGISLATIVE AUDIT DIV.

RE: Financial Audit 17-01A, State of Montana, for the fiscal year ended June 30, 2017.

Dear Mr. Maciver:

The Department of Administration would like to thank the Legislative Audit Division for auditing the State financial statements for the fiscal year ended June 30, 2017. We appreciate your staff and the professionalism demonstrated during the audit process.

The Department of Administration's response to the items reported under Internal Control Over Financial Reporting and Compliance and Other Matters, is as follows:

The Public Employees' Retirement Board (PERB) and the Montana Public Employee Retirement Administration (MPERA) have taken actions to address the material violation of finance-related legal provisions, resulting from the retirement systems and disability plan that are not actuarially funded, as required by the State Constitution. PERB has a policy to recommend funding increases when plans do not amortize within 30 years. Specifically, PERB is to recommend funding changes to address financial sustainability if PERB cannot reasonably anticipate the amortization period would decline without changes being made by Montana Legislature.

The Board of Investments (BOI) is taking actions to address deficiencies in internal controls over financial reporting. BOI will establish, document, and update internal procedures to comply with Governmental Accounting Standards Board (GASB) requirements and assist with proper preparation and review of financial statements and note disclosures.

Again, we thank you for your assistance this financial reporting period. It was a pleasure working with your division throughout the audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Lewis", is written over a horizontal line.

John Lewis, Director

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR



CAPITOL BUILDING - P.O. Box 200802
HELENA, MONTANA 59620-0802

January 29, 2018

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JAN 31 2018

LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

RE: State of Montana Financial Audit (#17-01A)

Dear Mr. Maciver:

The Office of Budget and Program Planning has reviewed the State of Montana Financial Audit for the fiscal year ended June 30, 2017. Our office is pleased with your issuance of an unmodified opinion on our Schedule of Expenditures of Federal Awards, in relation to the financial statements as a whole, presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Villa".

Dan Villa
Budget Director

cc: Sonia Powell, Single Audit Coordinator